



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: William A. Gilchrist
Director, PBD

SUBJECT: Mills Act Contracts

DATE: September 21, 2020

City Administrator Approval

Date: October 5, 2020

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution, As Recommended By The Landmarks Preservation Advisory Board Pursuant To Ordinance No. 12987 C.M.S., (1) Approving Ten (10) Mills Act Contracts, Between The City Of Oakland And The Properties At 676 Longridge Road, 322 Broadway, 1186 Trestle Glen Road, 926 Rosemount Road, 2804 Adeline Street, 724 Campbell Street, 326-28 Henry Street, 5738 Picardy Drive, 669-71 24th Street/674 23rd Street, And 369 MacArthur Boulevard, To Provide Property Tax Reductions In Exchange For Owners' Agreement To Repair And Maintain Historic Properties In Accordance With Submitted Work Programs; And (2) Approving Total City Tax Revenue Reduction Estimated To Be Above \$25,000 Per Year.

EXECUTIVE SUMMARY

Approval of this resolution will authorize agreements between the City of Oakland and the ten historic properties recommended for approval by the Landmarks Preservation Advisory Board at its July 13, 2020 meeting (**Attachment A**). This is the thirteenth year of Oakland's Mills Act program. Four of this year's ten applications are in West Oakland, seven are owner-occupied homes (only one assessed above \$1 million), and three are restorations and multi-unit residential conversions of significant, long-derelict buildings. Upon receipt of each property's executed contract, the Alameda County Assessor is directed by State law to re-assess the value of the property according to the formula established in the Mills Act, which will likely result in a reduction of property tax. The entire amount of the tax reduction—estimated at \$117,102 total for the ten properties—is required to be reinvested in maintenance, rehabilitation, and preservation of the properties according to approved and recorded work programs. The initial annual reduction of City tax revenue is estimated at approximately \$31,945 total for the ten properties (27.28 percent of the total estimated tax reductions). Unless contracts are terminated, properties remain subject to the Mills Act assessment formula in perpetuity. Since the Mills Act contract commits an owner to a ten-year work program of improvements that might not otherwise have been made, taxes gradually rise even under the Mills Act formula to reflect those improvements and compensate for the initial revenue reduction.

City Council
October 20, 2020

The properties recommended for Mills Act contracts are:

- MA20-001: **676 Longridge Road** (Council District 2)
- MA20-002: **322 Broadway** (Council District 3)
- MA20-003: **1186 Trestle Glen Road** (Council District 2)
- MA20-004: **926 Rosemount Road** (Council District 2)
- MA20-005: **2804 Adeline Street** (Council District 3)
- MA20-006: **724 Campbell Street** (Council District 3)
- MA20-007: **326-28 Henry Street** (Council District 3)
- MA20-008: **5738 Picardy Drive** (Council District 6)
- MA20-009: **669-71 24th Street/674 23rd Street** (Council District 3)
- MA20-010: **369 MacArthur Boulevard** (Council District 3)

BACKGROUND/LEGISLATIVE HISTORY

The Mills Act program is a preservation incentive created by the State of California in 1972-76 (Sections 50280-90 of the California Government Code and Section 439.2 of the California Revenue and Taxation Code) that allows reductions of property tax assessments for historic properties if the owner contracts with the local government to preserve the property, maintain its historic characteristics and, if necessary, restore it.

Over 90 California cities and counties are using the Mills Act as a catalyst for neighborhood preservation and revitalization. While there have been Federal tax credits and local façade grants for commercial properties, the Mills Act program is one of the few preservation incentives that is also available to owners of single- and multi-family residential properties. The California State Office of Historic Preservation says: “The Mills Act is the single most important economic incentive program in California for the restoration and preservation of qualified historic buildings by private property owners” (http://ohp.parks.ca.gov/?page_id=21412).

Adoption of a Mills Act program in Oakland was one of the incentives recommended in the Historic Preservation Element of the Oakland General Plan adopted by City Council in 1994 (Resolution No. 70807 C.M.S.; Action 2.6.1 of the Element). Investigation of a Mills Act program was one of the mitigations in both the West Oakland and Central City East Redevelopment plans in the early 2000s, partly to address community concerns about blight and displacement.

Finding that the Mills Act program meets numerous General Plan Land Use goals and policies, including housing rehabilitation, preservation of community character and identity, sustainability, revitalization, and image, and that the property tax revenue loss was negligible in light of the benefits, Oakland adopted a pilot Mills Act program in 2006 (Ordinance No. 12784 C.M.S.) and a permanent program in 2009 (Ordinance No. 12987 C.M.S.) (**Attachment B**).

Oakland’s 2009 Mills Act ordinance limits City tax revenue reductions from new contracts to \$25,000 per year outside Redevelopment areas, plus additional revenue reductions in Redevelopment areas (\$25,000 per Redevelopment area per year up to \$250,000, and an additional \$250,000 in the Central Business District). The ordinance provides that Mills Act revenue reductions may exceed the

limits with City Council approval. Due to rising Oakland property values, growing interest in the Mills Act program, and the elimination of separate City Redevelopment Agency tax revenues, approval was sought in 2018 and 2019 to exceed the \$25,000 "City revenue" limit and is being sought again in 2020.

Important aspects of the Mills Act program, established by the State legislation and reflected in the Model Mills Act Contract (**Attachment C**), include:

- The Mills Act program is a voluntary program.
- The Mills Act contract is between the City and the owner of a designated historic structure.
- The initial contract is for ten years. At the end of each year, the term is automatically extended one year, unless the owner or the City gives notice not to renew. If notice of non-renewal is given, the contract remains in effect for the balance of the current ten-year term.
- The basic State requirement is that the owner preserve, rehabilitate, and maintain the historical and architectural character of the property. Oakland's program further requires that the entire property tax savings be invested back into the property according to an approved work program that is recorded as part of the contract.
- The contract runs with the property, that is, its obligations automatically transfer to each new owner and the property is not reassessed to full market value upon sale.
- The contract provides for periodic inspections to determine the owner's compliance with the terms of the agreement.
- The penalty for breach of contract is 12.5 percent of the current property value.
- The Mills Act assessment formula is established by State law and applied by the County Assessor. The tax reduction varies depending on a number of factors. The largest reductions occur for properties purchased or reassessed in recent years and at high market values.

Oakland's first seven Mills Act contracts were adopted in 2008 and went into effect with the 2009-2010 tax assessment year. To date, 72 contracts have been approved and executed. The proposed ten new contracts, if approved, will go into effect for the 2021-2022 tax assessment year and will bring the total to 82. The owners will experience tax reductions estimated to total approximately \$117,102, resulting in an estimated first-year City revenue reduction of around \$31,945. The City's share of ad valorem property taxes is 27.28 percent. For the third time, this estimate exceeds the limit of \$25,000 per year "City revenue" reduction for new Mills Act contracts. Prior to 2018 (2008 to 2017), first-year revenue loss estimates for new contracts ranged from \$1,885 in 2011 to \$10,740 in 2015, averaging \$5,260 a year over the first ten years of the program.

The principle behind the Mills Act is that improvements made by reinvesting the tax savings will gradually raise assessed values and cancel out the initial losses, even at the lower Mills Act tax rate. In addition, it is expected that construction work performed under the contracts will support the local economy and that improvements will inspire other projects in the neighborhood. Two early Mills Act projects for large Central Business District properties (Cathedral Building, 1605 Broadway, Mills Act 2010; Girls Inc., 512 16th Street, Mills Act 2011) provided almost immediate revenue gains to the

City as these long-underutilized buildings were purchased, improved, and reassessed. More recently, 4690 Tompkins Avenue, a 40,000 square foot former missionaries' home above Mills College, long a problem property in the neighborhood, joined the program in 2018 and has re-opened as market rate apartments with a carefully restored 1920s exterior, a significant increase in value though updated tax assessments are not yet available. For small residential properties, sample online tax histories and owners' reports for properties that entered the program from 2008 to 2018 confirm the expected pattern of a significant reduction followed by gradually increasing assessments.

The applications proposed for approval for 2020 Mills Act contracts are all City of Oakland Designated Historic Properties, designated as Heritage Properties by the Landmarks Board on July 13, 2020, in conjunction with the Mills applications. Seven are small owner-occupied residential properties of one to two units. Three are larger multi-unit and commercial properties in serious states of disrepair, whose owners are using the Mills Act at staff's suggestion as a way to make restoration and reuse economically feasible. Short summaries of each property are given below. Photos and more detail can be found in the Landmarks Board staff report (**Attachment A**).

ANALYSIS AND POLICY ALTERNATIVES

This is the thirteenth year of Oakland's ongoing Mills Act program. The program was adopted in 2007-09 partly because of the lack of assistance for preservation of owner-occupied homes, in contrast to commercial properties that could at that time benefit from Federal tax credits as well as Oakland's Façade Improvement grants and other Redevelopment funding. After 2012 and the end of Redevelopment, City home loans and housing rehabilitation programs have been effectively eliminated, leaving the Mills Act as a unique though small resource that has been especially well used in West Oakland (19 out of 82 applications since the beginning).

Mills Act participants to date have corrected deferred maintenance, reversed inappropriate modernizations, and carried out full-scale adaptive reuse projects, thereby furthering General Plan goals and policies including housing rehabilitation, neighborhood preservation, sustainability, and revitalization. The 2020 properties are varied, interesting, and well qualified. Construction dates range from 1861 to 1927. Neighborhoods represented are West Oakland (four properties), Lakeshore-Trestle Glen (three), Central Business District, Adams Point, and Picardy Drive. Three large projects involve adaptive reuse of essentially derelict buildings in the Central District, West Oakland, and Adams Point, fulfilling direction from the Landmarks Board and staff to pursue Mills Act contracts as a preservation tool. The three adaptive reuse projects will combine historic restoration and new additions.

Several applications are based on research begun in the 1980s in the Cultural Heritage Survey's early Central District, Neighborhood Centers, West Oakland, and Adams Point surveys. The applications are all extremely well researched and presented, distinctive in style, and make valuable contributions to knowledge of Oakland history, buildings, neighborhoods, and research sources and techniques. The complete 2020 Mills Act and Heritage Property applications can be seen at the July 13, 2020, Landmarks Preservation Advisory Board webpage:

<https://www.oaklandca.gov/meetings/july-13-2020-landmarks-preservation-advisory-board>.

Summary of Proposed Properties

MA20-001: 676 Longridge Road, Anna & James Gartland – J.F. Hassler house, 1921

This intensely detailed two-story Georgian Colonial Revival house is located in the Olmsted Brothers-designed Lakeshore Highlands subdivision, launched in 1917 as an exclusive commuter “residence park.” Houses in the tract area mix-and-match fashionable European-revival styles of the era, some architect-designed and some not. The builder and likely designer of this \$12,000 house was Fred N. Strang, illustrating the importance and quality of builder-designed houses in the neighborhood. Residents included John Francis Hassler in 1940-43 during his term as City Manager. The work program addresses 99 years of wear and needed maintenance, including in-kind repair and restoration of brick veneer and steps, windows, and columned portico.

MA20-002: 322 (formerly 318-334) Broadway, Buswell Block, 1861-62, 1868-69, 1887

The Buswell Block began as three 1860s Italianate-style buildings, among the very earliest brick buildings remaining in Oakland’s original waterfront business district. They were originally developed by merchant Samuel Hirshberg (318), judge Sam Bell McKee (322), and saloon keeper Patrick Hayes (334). In 1887, Eldridge Buswell merged the buildings for his paint and glass business. After Lower Broadway became an entertainment district the Buswell Block’s storefronts and interiors were remodeled for a series of nightclubs. The building is unusually well documented in early photos, drawings, and physical traces on the building itself. The work program includes seismic support and detailed, documented restoration of the historic shell, including windows, storefronts, and surface details, interior reconstruction and the addition of a third-story penthouse.

MA20-003: 1186 Trestle Glen Road, Bert & Vernie Hoffschneider house, 1927

1186 Trestle Glen Rd. is a 1920s single-story stucco bungalow with modest Period Revival features, a popular type in the 1920s as the natural Craftsman bungalow met the postwar taste for European architecture. These smaller, less pretentious houses broaden the City’s understanding of the Lakeshore district and its upscale image. Better Homes Corporation, a design-build firm located in Fruitvale, promised middle-class clients the same attention to detail as a larger home, and built several homes in Lakeshore. They pictured the Hoffschneider house in a 1927 promotional article in the *Oakland Tribune*. The work program includes repair of brick chimney and porch pillars, stucco, exterior woodwork, and original operable wood-sash windows.

MA20-004: 926 Rosemount Road, B. Sigwald Hanson spec house, 1927

926 Rosemount Road, a two-story house at the top of a steep upslope lot, is one of a pair of semi-twin Tudor Revivals, with a steep roof, half timbering, diamond-paned windows, and respect for the natural site. Builder B.S. Hanson built at least ten other homes in the Lakeshore area and marketed 926 and 932 Rosemount through a classified ad: “LAKESHORE HIGHLANDS 2 nice new homes; if you appreciate sunshine and don’t mind some easy stairs, see this. Priced low, small pay down. B.S. Hanson, owner-build.” Owners in the 1930s were a City building inspector and a schoolteacher. The house illustrates the interplay of styles and ideas between builder-designed houses and their architect-designed neighbors. Work program includes major foundation, seismic, and drainage upgrades, and refurbishing of woodwork.

MA20-005: 2804 Adeline Street, Maud Hutchinson– William & Ida Bodin house, 1905-06

2804 Adeline is a striking and prominently located High-Gabled Shingle house, a type popular from about 1899-1906, before permit records exist. Architect A.W. Smith was likely either the designer or the inspiration for this house. Smith’s 20-plus houses in the neighborhood include the fine high-gabled 1105 32nd Street for the Summers family, members of a cluster of early African-American

civic and business leaders in northeast Clawson. Residents of 2804 Adeline also represent this middle-class African-American enclave, including William and Ida Bodin and their four children who held positions in civil service and African-American businesses and organizations. Work program includes seismic and structural strengthening, window repair or replacement, and reintegrating altered porches and steps.

MA20-006: 724 Campbell Street, Daniel Martin– Eva Morgan house, 1875

This classic slanted-bay Italianate cottage is located just off West Oakland's historic 7th Street between the Oakland Point and South Prescott districts. Its history illustrates significant West Oakland social, economic, and ethnic patterns. Its original owner, Daniel S. Martin, commuted by rail and ferry to his San Francisco trunk factory. Later owners, an English-born carpenter and stair builder and an Irish railroad brakeman, represent the many West Oaklanders who worked for the railroad and in the building trades. In the 1920s, Eva Morgan, a West Indian widow who worked as a matron for the railroad, rented rooms to Pullman porters. The Brotherhood of Sleeping Car Porters union was just a block away, central to 7th Street's prominence as the "Harlem of the West." Work program includes woodwork, roof, and window repair.

MA20-007: 326-28 Henry Street, Henry Brown– Serafino Pereira house, 1874-76

Near the estuary and below the 7th Street tracks, South Prescott's small, early, informal 1870s houses are barely ornamented and offer a testament to the immigrants and workers who built, occupied, and adapted them. Residents have included a carpenter/builder (Henry Brown, first owner and possible builder of the house) and the Serafino Pereira family who numbered a brakeman for the Central Pacific, a draftsman for Southern Pacific, and teenage daughters who were employed at nearby canneries, and represent the neighborhood's large Portuguese population. In 1935 virtually all of West Oakland was zoned for heavy industry, and many blocks were demolished in the 1960s for the post office and Bay Area Rapid Transit (BART). In 1974, South Prescott neighbors organized and won rezoning for residential use. This home's work program includes restoring window configuration and trim, rebuilding porch and steps, paint, and front yard landscaping.

MA20-008: 5738 Picardy Drive, Hartwig– Davis house in Normandy Garden, 1926

Normandy Garden subdivision, better known as Picardy Drive, is one of a number of planned, picturesque Period Revival tracts developed by Oaklanders R.C. Hillen, W. W. Dixon, and Ernest Urch, responding to Oakland's industrial and population boom in the later 1920s. Permits for 70 of the 71 lots were issued on a single day, but no two homes' storybook details are identical. The façade of 5738 features a pointed turret, steep gable roof with dormer, multi-paned windows, and half-timbering. The closely spaced houses allow for large front and backyards and a mid-block island with space for community events including the annual tree lighting. Residents of 5738 have included a cigar maker, a Ford Motors publicist, and neighborhood association activists. Work program includes complete foundation replacement, exterior woodwork refurbishment and paint.

MA20-009: 669-71 24th Street/674 23rd Street, National Guard Armory, 1922, add. 1930

This double-frontage brick and hollow-tile building was developed by industrialist and investor Charles Booth with architect Lawrence Flagg Hyde. It was custom designed for National Guard purposes with artillery, infantry, and officers' club rooms, munitions rooms, and a vast double-height drill court. Outgrown by the mid-1930s, the building went through a variety of institutional and commercial uses and by the late 20th century housed unpermitted artist lofts, where a fire in 2015 took two lives and the building was red-tagged, as the current applicant acquired it. The masonry exteriors are to be preserved and restored under direction of a preservation architect. Some interior

details such as structural beams are being incorporated into the lofts under construction. Where the 24th Street roof was destroyed by fire, an upper addition is set back from the façades.

MA20-010: 369 MacArthur Boulevard, Frank and Mary Lemos house, 1910

This distinctive craftsman house in Adams Point is distinguished by alternating wide and narrow shingles, flared gable roof, wide front porch, and overall elegantly rustic character. The design appears to be by builder J. Frank Gunn. Adams Point boasts many fine one-of-a-kind homes by famed architects, but builders like Gunn also contributed notably. Original owners were Portuguese-born Frank and Mary Lemos and sons Frank B., Pedro, and John, all working artists, listed in directories as Lemos Illustrating Co. and Lemos Bros. Artists & Engravers. Pedro was later director of the Stanford Art Museum. In 2016 the house was partly demolished and left open to the elements. However, all the exterior character defining features and examples of workmanship survive sufficiently to guide restoration. Planning staff suggested a Mills Act contract as a way to support the project. A compatible addition with two new dwelling units is planned for the rear of the building.

Mills Act Contract Obligations

Participation in a Mills Act program is voluntary for both the property owner and the City. The contract including the work program is recorded on the property title. As long as the contract is in effect, taxes are assessed at the lowest of three possible assessments: the rent-based Mills Act formula, base year (“Proposition 13” – the likely current assessment), or market value. The owner is obligated to invest the entire tax savings in carrying out the work program. The contract, tax formula, and work program all remain with the property if it is sold or transferred.

Contracts are for a ten-year term, automatically renewed annually for an additional year. Either the City or the property owner may elect not to renew for any reason, which would terminate the agreement at the end of the current ten-year term (i.e., termination requires ten years’ notice). During the remainder of a non-renewed term, taxes increase gradually to the normal level. The owner is subject to a substantial penalty if a contract is canceled with less than ten years’ notice, either at the owner’s request or by the City for owner’s noncompliance. Otherwise the contract is in perpetuity, though additional work items are not added after the first ten years. State law establishes a potential penalty for noncompliance of 12.5 percent of market value.

Staff is careful to warn applicants about potential risks and works with each applicant to develop a realistic work program. So far, two Oakland contracts have required adjustment of the work program and schedule: one in which a new owner’s use of the building differed from that proposed by the original applicant, and one where the owner suffered an incapacitating illness. In 2016, the application for 369 MacArthur was withdrawn because the owner wanted to consider options incompatible with a preservation contract. A few owners, for various reasons, have gone through the entire application and approval process but did not record their executed contracts with the County and therefore did not receive the Mills Act tax reduction. However, those properties retain their Heritage Property designations.

FISCAL IMPACT

A simple calculator on the City website <https://www.oaklandca.gov/search?query=mills+act> allows applicants to make a *rough estimate* of tax outcomes. **Table 1** below shows estimated tax reductions to applicants and estimated revenue reductions to the City resulting from the Mills Act contracts

recommended for 2020. Based on Alameda County records and information from applicants, Column 2 lists the 2019-20 assessed value and Column 3 lists current (2019-20) property taxes. Column 4 lists the *estimated* Mills Act property taxes, applying the income-based assessment formula established in the Mills Act via the Mills Act Calculator on the City website. The Mills Act assessment formula is based on actual or hypothetical rental income, with an adjustment to the capitalization rate for “historic property risk.” Column 5 lists the difference between the current property taxes and the estimated Mills Act property taxes, i.e., the applicant’s projected tax savings, which must be spent on restoring and maintaining the property. Column 6 lists the estimated reduction of property tax revenue to the City, which is 27.28 percent of the total estimated reduction. The Mills Act reduction applies only to the ad valorem property tax, not to any special assessments or other charges.

The calculator and all calculations based on it are subject to the following disclaimer, as stated on the City’s Mills Act web page: *Disclaimer: The online calculator that produced these estimates is an interactive spreadsheet based on the Mills Act formula for tax assessments, which uses a modified version of the income method of appraisal. It gives a rough estimate of potential tax savings. The City makes no warranties or representations about the accuracy of the calculator—it is an information tool that applicants may use at their sole risk, and does not replace legal counsel or a financial advisor. Actual tax reductions, if any, will be calculated by the County Assessor’s Office after the Assessor has received the executed Mills Act contracts at the end of the calendar year.*

In addition to the rather generic estimates from the calculator, some applicants have provided their own calculations—some higher, some lower—based on conversations with the Assessor or research into market rents. New owners and owners of major rehabilitation projects have had to provide their best estimates of future assessments and taxes. All of these can only be rough figures, especially as 2020-21 assessments have not been published at the time of this report and the 2021-22 Mills Act restricted assessments based on market rents will not be calculated by the county until 2021. The three adaptive reuse projects are still assessed in their quasi-derelict state, and their actual future assessments will depend on many factors: rents in the completed project, construction costs, proration between historic and new construction, and the likely higher quality of the finished project due to the Mills Act work program.

In the decades since the Mills Act program was created by the legislature in the early 1970s, and even since Oakland’s program was adopted in 2007-09, tax outcomes of the Mills formula have been affected by changes in the California real estate market. Rising real estate prices and the Proposition 13 system (1978) under which properties are reassessed to market value only at change of ownership mean that new owners are likely to benefit much more from a Mills contract than long-term owners. Because the Mills Act assessment formula is based on the income method of appraisal (using a hypothetical market rent for owner-occupied homes), the current spike in rental prices means that Mills Act savings may be less than in past years. According to staff at the Assessor’s office, “higher rents will have an impact on Mills Act restricted assessments. The restricted [Mills Act] assessment will be calculated using market rent as of January 1. An increase in market rents would yield a higher restricted assessment.” Assessment is done property by property in the new tax year (2021). Applicants were advised to put a higher rent per square foot in the calculator (at least \$2.50 to \$3 in 2020, vs. \$1.25 when the calculator was designed by consultants Economic & Planning Systems Inc. in 2006). Lower Mills Act savings for owners would, of course, also mean less revenue reduction for the City.

TABLE 1: ESTIMATED TAX RESULTS, 2020 MILLS ACT APPLICATIONS

1 Mills Act Application	2 Assessed Value 2020 (county record - land & improvements)	3 Current Ad Valorem Property Tax (county rec.)	4 Mills Act Taxes from calculator (estimate based on ~\$2-3.50/sf rent)	5 Change in Taxes (current less Mills estimate)	6 City Revenue Loss, Year 1 (27.28% of tax change)
Small residential properties, citywide:					
MA20-001, Longridge	\$1,597,843	\$21,775	\$10,511	(\$11,264)	(\$3,073)
MA20-003, Trestle Glen	\$675,367	\$9,149	\$4,435	(\$4,714)	(\$1,286)
MA20-004, Rosemount	\$843,587	\$11,547	\$5,228	(\$6,319)	(\$1,724)
MA20-005, Adeline *	\$800,000	\$11,200	\$4,946	(\$6,254)	(\$1,706)
MA20-006, Campbell	\$714,000	\$9,773	\$3,705	(\$6,068)	(\$1,655)
MA20-007, Henry *	\$469,294	\$6,570	\$2,544	(\$4,026)	(\$1,098)
MA20-008, Picardy	\$802,740	\$10,988	\$5,031	(\$5,957)	(\$1,625)
TOTAL small residential	\$5,902,831	\$81,002	\$36,400	(\$44,602)	(\$12,167)
<i>Approximate total small residential tax reductions:</i>				total tax reduction (\$44,602)	City revenue (\$12,167)
Large adaptive reuse projects and multi-unit properties **:					
MA20-002, Broadway	\$4,836,700	\$67,714	\$44,426	(\$23,288)	(\$6,353)
MA20-009, 24th/23rd	4,740,200	\$99,298	\$69,000	(\$30,298)	(\$8,265)
MA20-010, MacArthur	1,970,000	\$27,580	\$8,666	(\$18,914)	(\$5,160)
<i>Approximate total large project reductions:</i>				total tax reduction (\$72,500)	City revenue (\$19,778)
TOTAL Estimated City tax revenue loss, year 1 (tax year 2020-21)					(\$31,945)

Total estimated reduction to owners, must be reinvested in work programs: \$117,102

* Adeline and Henry: new owners, value shown represents purchase price information from owners

** Broadway: applicant's estimate of future assessed value of historic bldg., based on rehab costs
 23rd/24th: applicant's estimate of annual savings, per work program
 MacArthur: applicant's estimate of future assessed value of historic bldg., based on rehab costs

An estimated City revenue reduction of \$12,167 (column 6) for the seven small residential properties is well below the annual limit of \$25,000 for new Mills Act contracts (though higher than in most past years, due to both inflation and the large number of applications). The three large adaptive reuse projects (Broadway in the Central Business District, 24th Street in West Oakland, MacArthur in Adams Point) are estimated to produce a combined revenue reduction of approximately \$19,778, for an overall total of \$31,945 City tax abatement on 2020's Mills Act projects. This exceeds the \$25,000 limit established in 2007 for properties outside Redevelopment areas by approximately \$7,000, again a very rough estimate. Distinguishing conservatively between Redevelopment *areas*, which still exist, and Redevelopment *revenue* which no longer exists separately from City revenue, exceeding the City revenue reduction limit in the 2007 ordinance requires City Council approval, which would be given by authorizing all ten contracts through adoption of this resolution.

Staff believes it is reasonable to authorize all ten applications for Mills Act contracts, and to approve 2020's contracts in excess of the 2007 City revenue reduction limit, for these reasons:

- Inflation: Property prices and taxes have risen sharply in the last decade. In 2006, the staff report for the Mills pilot program stated that the "\$25,000 tax loss amounts to 0.03 percent of the annual [property] tax revenues which total \$85 million." The City's published 2019-2024 five-year forecast projects \$222 million in annual property tax revenue, almost three times what it was when Oakland's Mills Act program was designed (0.03 percent would be approximately \$67,000).
- Redevelopment area allowances: In addition to the \$25,000 "City revenue" reduction, the 2007 and 2009 ordinances provided substantial additional tax reductions in Redevelopment areas with their separate tax revenues, covering most of Central, West, and East Oakland (see page 2). Redevelopment was abolished in 2012, but the areas and their area specific plans continue to exist, leaving some ambiguity about Mills tax quotas in those areas. In the future, the Mills program could be formally revised to clarify effects of the end of Redevelopment, or overall reductions could simply continue to be subject to Council approval. Five of the ten applications in 2020 are in Redevelopment areas (four in West Oakland, one in the Central Business District).
- Rising property values and growing awareness of the Mills program as a way to support rehabilitation and reuse mean more and larger applications. City Council approval was sought and received in 2018 and 2019 to exceed the \$25,000 City revenue limit to support rehabilitation of large and sometimes distressed properties, like the three applying in 2020. Such projects are usually completed early in the contract term, and the City benefits from taxable value added by the Mills rehabilitation work even with the Mills tax reduction, as well as other benefits from returning problem properties to use.
- Until 2017, total first-year revenue loss estimates for new contracts were consistently far below even the \$25,000 limit, ranging from \$1,885 in 2011 to \$10,740 in 2015. In 2018 the \$25,000 limit was exceeded for the first time, with a projected total reduction of \$31,720 divided about equally between seven small residential properties (~\$15,700 total) and two large adaptive reuse projects (~\$16,000 total). The pattern is similar in 2019 and 2020.
- A fundamental premise of the Mills Act is that improvements made under the work programs will raise property values and balance out the initial losses, even at the lower Mills Act tax rate, especially when projects involve substantial rehabilitation that might not have been

undertaken without the Mills incentive. Money spent on the work programs also makes its way back into the local economy and tax base, and Mills contract requirements ensure high quality, high value, historically appropriate projects.

- The City's share of ad valorem property tax revenue, and therefore of any tax reduction to the owners, is 27.28 percent. Property owners must reinvest the *entire* tax saving in the restoration program, so the City tax reduction leverages almost four times its value in reinvestment in Oakland's historic buildings. The proposed 2020 contracts obligate owners to reinvest over \$117,000 a year in materials, wages, and other costs of restoration.
- Previous Mills Act projects for two large Central Business District properties (Cathedral Building, 1605-15 Broadway/1606-14 Telegraph, 2010; Girls Inc., 512 16th Street, 2011) provided almost immediate revenue gains to the City when these long-underutilized buildings were purchased, improved, and reassessed. This effect is also shown by 2018's two large reuse projects, 5701 International Boulevard and 4690 Tompkins Avenue, now rehabbed and in service, though it is too early to see the new tax assessments.
- The three large adaptive reuse projects applying in 2020 show that incentives like the Mills Act can be effective arguments for preservation. These revitalizations of derelict and damaged buildings might never have been undertaken, or might have been undertaken at a lesser quality, without the Mills Act.

PUBLIC OUTREACH/INTEREST

A map at the end of **Attachment A** shows the location of Mills Act properties to date. The geographic distribution generally reflects the location of Oakland's oldest buildings and neighborhoods, as well as neighborhoods where property prices have risen the fastest and the potential tax reductions are greatest. Since the beginning of the program, applications and contracts have been most numerous in Council Districts 2 and 3, in West, Central, and North Oakland, Lakeshore, and San Antonio, with far fewer contracts in East Oakland. This year there are six applications from District 3 (Downtown, Adams Point, and West Oakland) and three from District 2 (Lakeshore-Trestle Glen). District 6 is represented by the first participant from Picardy Drive.

When the Mills Act program was initiated in 2006-07, the City mailed information to owners of approximately 10,000 designated or identified historic properties citywide and several hundred real estate brokers and agents. The West Oakland and Central City East Redevelopment Project Area Committees were significant vehicles for publicizing the program until the end of Redevelopment in 2012. Outreach now takes place primarily when permit applicants, owners, and real estate agents contact Planning staff about potentially historic buildings. Inquiries may be permit-related or may begin as historical research. Permit applicants concerned about affordability of foundation, window or siding repairs are provided with program information. Unfortunately, long-term owners are less likely to benefit in the current real estate market. Neighbors tell neighbors about the program, neighborhood and preservation organizations publicize it, and staff has announced it at meetings of the Prescott and Clawson neighborhood associations. There is also a detailed Mills Act section on the City's web page, <https://www.oaklandca.gov/resources/historic-preservation>.

Every year staff receives dozens of spontaneous inquiries from owners who have heard about the Mills Act program, and staff helps them determine if their properties are a good fit, considering

current tax status (usually related to length of ownership), type and amount of work the building needs, and the owner's assessment of their personal commitment to restoration, tolerance of risk, and capacity to carry out a long-term work program. Applicants come to the program with widely differing levels of experience in historical documentation and building rehabilitation, but all are encouraged to prepare their own applications rather than hiring consultants. This removes financial barriers to joining the program as well as leading owners to a deeper understanding of their building, its significance, and its needs. Staff works closely with potential applicants to develop their Mills Act and Heritage Property applications, so that virtually all who wish to apply have been accepted. There is an informal limit of ten contracts per year, based on City tax loss limits and staff capacity, but twelve were submitted in 2019 and all were accepted.

The ten 2020 Mills Act applications were publicly presented and discussed at the Landmarks Preservation Advisory Board's online meeting on July 13, 2020. The Landmarks Board unanimously recommended that the City Council authorize Mills Act contracts for all ten applicants and approve the potential approximately \$32,000 City revenue reduction. The applications and Landmarks Board recommendation were presented and accepted as an Informational Report at the August 5, 2020 online meeting of the Planning Commission.

COORDINATION

This report and legislation have been reviewed by the Office of the City Attorney and Budget Bureau.

PAST PERFORMANCE, EVALUATION AND FOLLOW-UP

The Mills Act agreement provides for periodic inspections to determine owners' compliance with the terms of the agreement and progress on the work program. In the dozen years of Oakland's program, Mills Act participants have corrected deferred maintenance, reversed inappropriate alterations, stabilized roofs and foundations, and carried out full-scale adaptive reuse projects. Due to limited staffing, inspections have generally taken the form of email surveys, self-reporting, and contacts when permit applications are made or when properties change ownership.

In the first years of the Oakland's Mills Act program, tax histories of participating properties confirmed the expected pattern of a reduction upon entering the program, followed by gradual increases. Since 2016, a number of participants have reported that their property taxes are rising faster than expected, due to the spike in market rents upon which Mills assessments are based. A property's Mills Act assessment cannot exceed its factored base year ("Proposition 13") assessment, but some owners are concerned that the tax reductions may no longer meet the expenses projected for their work programs. Depending on the future of the real estate market, this situation may correct itself, or some existing work programs may need to be revised, or the Mills Act program may become less attractive to applicants – time will tell.

SUSTAINABLE OPPORTUNITIES

Economic: Historic rehabilitation provides opportunities for professional services and construction jobs for the Oakland community, often involving specialty trades, skilled craftspeople, and specialty

products and suppliers. By having additional tax savings to invest in rehabilitation work, the Mills Act work programs increase opportunities for this sector of the construction industry.

Preservation and rehabilitation will increase the property's value for each Mills Act participant, both economically and qualitatively. While tax revenue losses to the City are minimal, it has been shown throughout California that Mills Act projects act as catalysts for revitalization in the surrounding neighborhood, stabilizing the neighborhood physically and economically, and tax revenues follow.

Environmental: Preservation and rehabilitation conserve materials and energy embodied in existing building stock, improve healthful living conditions, and in a broader sense, set an example for rejecting the throw-away economy.

Race and Equity: Historic buildings reinforce a community's connection to its past and place. Revitalization of historic properties supports pride of neighborhood and community, and sometimes directly alleviates blight and hazards. Documentation in Heritage Property and Mills Act applications deepens public knowledge of Oakland's many-layered history.

Historic preservation and rehabilitation assist in the revitalization of Oakland's historic buildings and neighborhoods citywide. Applicants come from all areas of the City, and each single project acts as a catalyst for revitalization of its neighborhood, as Mills Act participants set an example by maintaining and restoring properties.

Older buildings typically provide more affordable housing and commercial space than new construction. The relatively small tax savings under the Mills Act offer property owners with finite means the ability to carry out work in ways that are historically appropriate rather than merely affordable.

Oakland's historic buildings are concentrated in older neighborhoods – especially West Oakland – that have long housed lower income and minority residents. The Mills Act formula, real estate market, and tax system currently mean that long-term owners with low assessments are unlikely to benefit, but the Mills Act incentive may make homes in these neighborhoods marginally more affordable for new or recent owners.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)

Approval of Mills Act applications is Categorical Exempt per CEQA Guidelines Sections: 15301 (Existing Facilities); 15305 (Minor Alterations in Land Use Limitations); 15306 (Information Collection); 15308 (Actions by Regulatory Agencies for Protection of the Environment); 15331 (Historical Resource Restoration/Rehabilitation).

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt A Resolution, As Recommended By The Landmarks Preservation Advisory Board Pursuant To Ordinance No. 12987 C.M.S., (1) Approving Ten (10) Mills Act Contracts, Between The City Of Oakland And The Properties At 676 Longridge Road, 322 Broadway, 1186 Trestle Glen Road, 926 Rosemount Road, 2804 Adeline Street, 724 Campbell Street, 326-28 Henry Street, 5738 Picardy Drive, 669-71 24th Street/674 23rd Street, And 369 MacArthur Boulevard, To Provide Property Tax Reductions In Exchange For Owners' Agreement To Repair And Maintain Historic Properties In Accordance With Submitted Work Programs; And (2) Approving Total City Tax Revenue Reduction Estimated To Be Above \$25,000 Per Year.

For questions regarding this report, please contact Betty Marvin, Historic Preservation Planner, at (510) 238-6879 or bmarvin@oaklandca.gov.

Respectfully submitted,



WILLIAM A. GILCHRIST
Director, Department of Planning and Building

Reviewed by:
Edward Manasse, Deputy Director/City Planner,
Bureau of Planning

Prepared by:
Betty Marvin, Historic Preservation Planner
Bureau of Planning

Attachments (3):

- A: July 13, 2020, Landmarks Preservation Advisory Board Staff Report
The complete 2020 Mills Act and Heritage Property applications can be seen at the July 13, 2020, Landmarks Preservation Advisory Board link <https://www.oaklandca.gov/meetings/july-13-2020-landmarks-preservation-advisory-board>.
- B. Ordinances establishing pilot and permanent Mills Act Program (Ordinance No. 12784 C.M.S. and Ordinance No. 12987 C.M.S.)
- C: Model Mills Act Agreement
This agreement, along with the "Preservation Work Program and Timeline" (page 2 of each individual Mills Act application), is recorded on the title to each participating property.