



CITY OF CORONADO

CITY COUNCIL STAFF REPORT

Public Hearing: Consideration of Application for Historic Resource Preservation (Mills Act) Agreements for Two (2) Previously Designated Historic Resources

RECOMMENDATION

Approve Mills Act Agreements for 1027 Adella Avenue and 680 Glorietta Boulevard.

BACKGROUND

The Mills Act is a 1972 state law that allows California cities and counties to enter into contracts with owners of qualified historic properties who participate in the restoration and maintenance of their historic properties in exchange for property tax relief. The Mills Act is a voluntary program. Local agencies have full discretion to decide whether or not to offer the program to residents and are authorized under state law to tailor their programs to best meet the needs of their community.

The City of Coronado enacted its Mills Act program in 2000 by adopting Resolution No. 7736. Under the City's process, a property must be designated as a historic resource before an owner can apply for the Mills Act program and not all designated historic resources are deemed eligible for the Mills Act.

Mills Act applications are reviewed by the City's Historic Resource Commission (HRC). Based on their review, the HRC provides a recommendation to the City Council, who ultimately decides whether or not to grant Mills Act requests.

Property owners whose Mills Act applications are approved may enter into a voluntary ten-year contract with the City. The contract stipulates the property owners' obligations to maintain, and if necessary, restore the property in exchange for a reduced property tax benefit. Once signed, Mills Act contracts are recorded at the County of San Diego Recorder's Office. Mills Act contracts run with the land and automatically transfer to new owners following a property transaction.

Mills Act Property Tax Reduction Calculation

Although local agencies have authority to administer their Mills Act programs and to enter into contracts with eligible historic property owners, state law empowers county tax assessors to determine the actual assessed value of the land and calculate the property tax savings based on a formula codified in California Revenue and Taxation Code Sections 439-439.6.

The California Revenue and Taxation Code (RTC) requires tax assessors to review and value Mills Act properties each year to determine potential property tax savings by comparing three different valuation methods: 1) the restricted value; 2) the factored base year value (Prop 13 value); and 3) the current fair market value. State law requires that the Mills Act tax savings be based on the lowest of these three values. Because state law requires the county assessor to use the lowest of three values, some Mills Act recipients who have low property taxes due to Prop 13 may receive a very small or possibly no additional tax savings. See the State Board of Equalization Guidelines for the Assessment of Enforceably Restricted Historical Property for additional information and example calculations (Attachment 5).

RTC Section 439.2 specifies that the county assessor shall value restricted historical property by the capitalization of income method as specified therein. Three methods of determining the annual income

to be capitalized are authorized:

1. The fair rent that can be imputed to the restricted historical property being valued based upon rent actually received for the property by the owner and upon typical rentals received in the area for similar property in similar use where the owner pays the property tax, if such information is available;
2. Where sufficient rental income is not available, the income shall be that which the restricted historical property being valued reasonably can be expected to yield under prudent management and subject to applicable provisions under which the property is enforceably restricted, or;
3. If the parties to a Mills Act contract stipulate therein an amount that constitutes the minimum annual income to be capitalized, then the income to be capitalized shall not be less than the amount so stipulated.

Pursuant to the capitalization of income method of valuation, the county assessor must determine the capitalization rate by adding the following required components:

1. An interest component to be determined by the board and announced no later than October 1 of the year preceding the assessment year and that was the yield rate equal to the effective average interest rate on conventional mortgages as most recently published by the Federal Home Loan Mortgage Corporation, or as that entity may be known in the future, as of September 1, rounded to the nearest one-fourth of 1 percent.
2. A historical property risk component of either (i) 4 percent for owner-occupied single-family dwellings, or (ii) 2 percent for all other restricted historical property.
3. A component for property taxes that shall be a percentage equal to the estimated total tax rate applicable to the property for the assessment year times the assessment ratio.
4. A component for amortization of the improvements that shall be a percentage equivalent to the reciprocal of the remaining life.

Coronado Mills Act Process

The City amended its Mills Act program in 2011 to limit the foregone property tax revenue associated with its growing program. To achieve this objective, the City Council adopted Resolution No. 8524 to cap the property tax benefit to no greater than 50% that would otherwise be available through the Mills Act process. This amended process was applied to all Mills Act applications received after January 1, 2012.

The City has no ability, legal or otherwise, to influence any of the four variables that are components of the capitalization rate listed in the preceding section. Consequently, the only way the City can achieve its objective to limit its foregone property tax revenue through Mills Act agreements is to stipulate a minimum annual income amount to be capitalized by the county assessor, as authorized in RTC Section 439.2(a)(3). A higher stipulated annual income results in lower tax benefits for applicants and lower foregone tax revenue for the City.

To ensure property tax benefits are capped at 50%, the City adjusts the minimum annual income to be capitalized to produce an approximate first-year tax savings of 40% with the assumption that the tax savings will increase roughly 2% annually over the course of the five-year agreement. The City then renegotiates an amended contract every five years and recalculates the annual income to be capitalized to maintain the tax savings between 40-50%.

Once City staff adjusts the minimum annual income to be capitalized, they transmit this information to the County Assessor who completes the valuation process. The City has no role in the Assessor's valuation process and does not have an opportunity to review or offer comments on their calculations.

ANALYSIS

Estimates for first year reduced property tax income to the City are included in Attachment 1 and are based on estimated current market value as of early September 2025. It should be noted that the reduced property tax income estimates do not include any exclusions that may be written into the agreements. Exclusions include non-historic elements of the property such as additions after the period of significance of the designation and accessory buildings that do not contribute to the historic significance of the property. The process of reducing the Mills Act tax savings as a result of exclusions is not done by the City of Coronado; it is done after the Mills Act Agreement is recorded and taken over by the County Tax Assessor. When an exclusion is written into a Mills Act Agreement, the County Tax Assessor gives the property a blended Mills Act valuation, which results in a lower tax savings for the property owner and a lower fiscal impact to the City. Exclusions and lists of improvements associated with each property on the waiting list, as recommended by the HRC and staff, are included in Attachment 1.

Per City Council direction, all applications currently prioritized and added to the waiting list have been scheduled for formal consideration by the City Council at this public hearing, as required by Section 84.10.100 of the Coronado Municipal Code. Photographs and information about each of the properties are included as Attachment 3.

A template Mills Act Agreement is included as Attachment 4. This template includes recent modifications to the Agreement to address compliance, Amendments, and timing of inspections by staff to ensure that required restorations are being completed. For Mills Act Agreements approved by the City Council, staff will draft Agreements tailored to each individual property per the recommendations indicated in Attachment 1, and with the appropriate Annual Income to be Capitalized to comply with City Council Resolution No. 8524. The agreement will be signed and notarized by the City and property owner, and agreements that are recorded at the County Recorder's Office by the end of the calendar year will take effect in 2025.

FISCAL IMPACT

General Fund:

If the Council approves Mills Act Agreements recommended by the Staff and the Historic Resource Commission, the estimated first-year reduction in property tax revenue to the City will be approximately \$7,627 (Attachment 1). First-year fiscal impact estimates are based on estimates of current market value. Therefore, some properties may have a lower or no actual fiscal impact depending on the length of ownership. Should any of these properties change ownership, the City may see a higher fiscal impact until an amendment is recorded.

Attachment 2 shows the Cumulative to Date Fiscal Impact Report of all recorded Mills Act Agreements since the program was implemented in 2001 at \$9,335,551. Of that amount, the estimated fiscal impact to the City last year was \$1,048,480. The City's General Fund balance includes \$500,000 committed to Historic Preservation for the purpose of mitigating impacts of reduction in property tax revenues to the City.

To the Successor Agency to the Community Development Agency of the City of Coronado (SA):

The estimated cumulative tax increment loss is approximately \$15,254 (\$7,627 x 2 years). Although this would reduce the excess tax increment that can be used to early retire the 2018 Tax Allocation Refunding Bonds (TARBS), it is not expected to impact the originally projected early maturity timeline of 2027.

ALTERNATIVE

The City Council may approve or deny any of the Mills Act applications.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

This action is not considered a project under CEQA and is therefore exempt from environmental review.

PUBLIC NOTICE

Section 84.10.100 of the Historic Preservation Ordinance requires that the City Council consider Mills Act Agreement applications at a noticed public hearing. A public notice was published in the Coronado Eagle & Journal on September 24, 2025, and was mailed to all property owners within 300 feet of the subject properties.

ATTACHMENTS

1. Mills Act waiting list with estimated first year impact to City, proposed List of Improvement items and exclusions
2. Cumulative Fiscal Impact Report
3. Property Information
4. Mills Act Agreement Template
5. Public Notice Affidavit
6. State Board of Equalization Guidelines for the Assessment of Enforceably Restricted Historical Property

Submitted By: Community Development / Tricia Olsen