

STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

CITY MANAGER REMARKS

The City Manager recommends approval.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statements:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

FISCAL IMPACT

The City of Fullerton receives \$0.1564 of every \$1 of property taxes, with the remaining portion going to the county, school districts and special districts. The Mills Act Program results in a 15.64% reduction to the City general tax levy portion for each property with a Mills Act Agreement. The general levy property tax component does not include additional taxes such as special assessment charges and is not affected by Mills Act contracts.

The Orange County Assessor's Office calculates Mills Act property tax savings annually using a formula to calculate the property owner tax savings by determining the property annual net operating income by subtracting the projected rental income from property operating expenses (typically 30%). The annual net operating income is then divided by the state capitalization percentage rate, resulting in the new assessed value, otherwise known as the Restricted Value. The amount of annual property tax revenue loss to the City depends on the assessed valuation of the property once the subject property has entered a Mills Act contract. The Orange County Assessor's Office assesses values on January 1 each year, therefore a property must enter a Mills Act contract by December 31 of the previous year to receive tax savings on the property.

The City may process no more than ten Mills Act contracts per calendar year, pursuant to Mills Act Program Guidelines. Additionally, City Council must adopt a resolution when the total number of approved Mills Act contracts reaches 50 to reauthorize the program and specify how many additional Mills Act contracts it will consider. The application for the 520 West Valley View Drive property is one of two applications submitted in the 2025 calendar year and is the sixth City property requesting a contract.

The City would impose a 12.5% penalty of property assessed fair market value, should the City find a property owner in breach of contract terms or the property owner petitions for immediate contract cancellation.

BACKGROUND AND DISCUSSION

The Fullerton City Council adopted Resolution No. 2020-38 on April 21, 2020 establishing a Mills Act Program (Program) and associated Mills Act Program Guidelines authorizing local use of the Mills Act of 1972, as amended and codified in California Government Code Sections 50280 through 50290 and Revenue Taxation Code Section 439. The Mills Act allows historic property owners to voluntarily enter individual contracts with the City to receive a property tax reduction in exchange for restoring and maintaining their historic property.

Mills Act contracts run for a ten-year term and automatically renew each year on the anniversary of contract approval. In effect, the contract is always ten years away from termination, unless the property owner or the City submits a notice of non-renewal at which point the contract would terminate at the end of the current ten-year term.

The Orange County Assessor's Office reassesses the historic properties under a Mill Act contract to determine the Historical Property Value based on property income-producing potential and uses this to determine property taxes under the Mills Act contract. The amount of property tax reduction varies based on each property's income-producing potential and current assessed value.

The Fullerton General Plan (The Fullerton Plan) includes a Historic Preservation Chapter to guide historical resources preservation, protection, restoration and rehabilitation and reaffirm their continuing value as a resource contributing to the vitality and diversity of the present. The Fullerton Plan Short-Term Action Plan supports City efforts to preserve historic resources and identifies Mills Act Program development and implementation to provide financial incentives to restore and preserve historic resources.

Eligible Properties

Revenue and Taxation Code Section 439 defines a “qualified historical property” as a privately owned property, not exempt from property taxation and listed on any national, state or local historic register. The Fullerton Plan contains several historic designations based on the level of significance, including:

- National Register
- Local Landmark
- Significant Property
- Potential / Possible Significant Property
- Historic Districts / Preservation Zones.

Additional Eligibility Criteria identified by the City's Program includes:

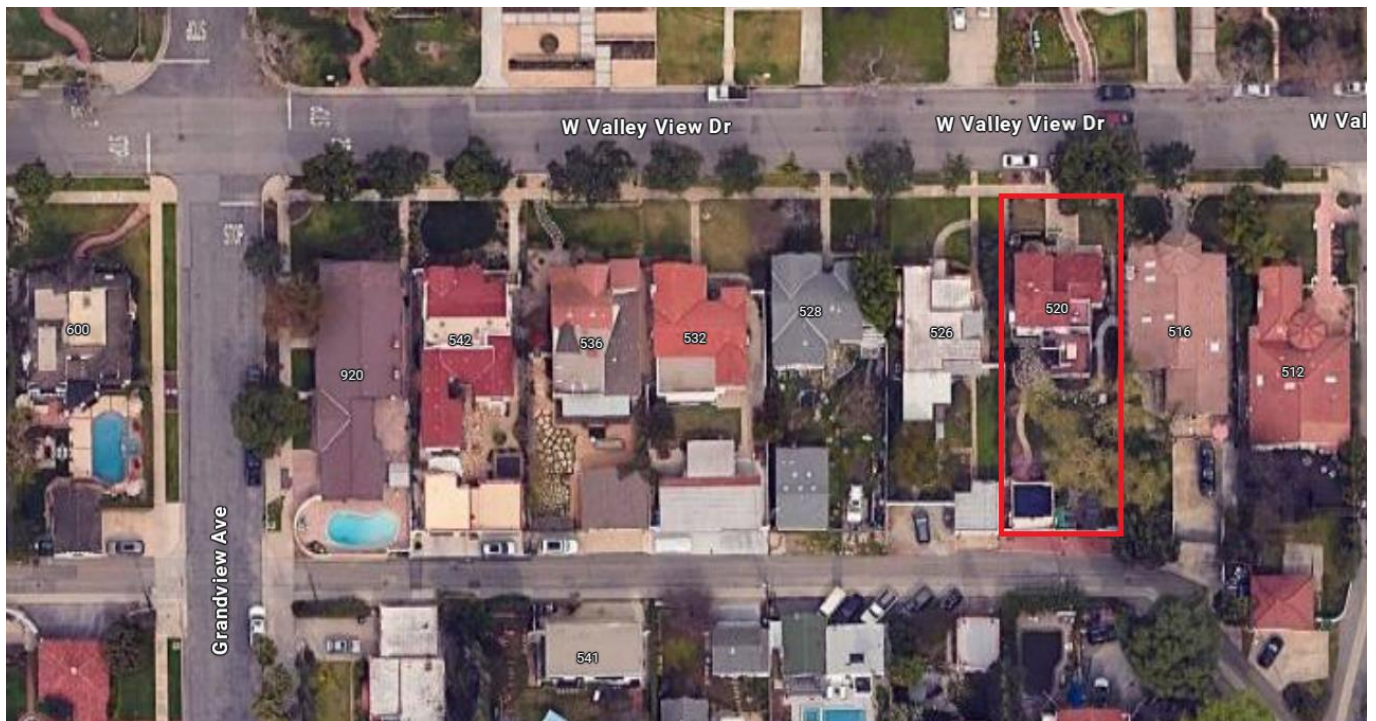
- Property must be privately owned
- Property must be subject to property taxation
- Property must be residential in nature / use.

Property Background

Property owners Ron and Amy Michelotti applied for a Mills Act contract for their property located at 520 West Valley View Drive on March 31, 2025. The property is located on the south side of West Valley View Drive, approximately 330 feet east of the intersection with Grandview Avenue (see Figure 1). The property was built in 1929 and represents a “Spanish Colonial Revival” architectural style that was popular from 1915 to 1941.

520 West Valley View Drive is a privately owned residence located in the R-1-7.2P (7,200 square foot minimum lot size) zone categorized as a One-Family Residential, Preservation zone. The property is recognized in the City of Fullerton Local Register of Historical Resources (Landmark Number HL-89, Maxwell House). The property qualifies for consideration of a Mills Act contract as the property falls under a qualified historic designation and meets additional eligibility criteria.

Figure 1



The detached three-bedroom single-family dwelling incorporates design elements commonly seen in Spanish Colonial Revival homes. This property is a particularly fine example of a Harry G. Maxwell Spanish Colonial Revival “spec” home. Maxwell was a Fullerton pioneer and prominent civic and business leader; a real estate broker and Spanish Colonial Revival style homes developer in 1920s Fullerton. Exterior design elements include a smooth stucco surface, sloping red tile roof, terra cotta tiles, wrought iron railings and arched windows. Changes to the property have been minimal, but include front yard planters, Spanish-style ceramic tiles and a stucco deck at the rear of the house, all consistent with the original style of the home.

Existing Conditions

Fullerton Heritage conducted a pre-application survey prior to application submittal, pursuant to the guidelines. The pre-application survey determines and discusses whether the property qualifies as a good candidate for a Mills Act contract. A member of Fullerton Heritage met with the property owners, took pictures of the exterior of the property and provided documentation to the City of Fullerton Planning Division. Staff evaluated the property qualifications and made considerations in areas that appear to have lost historic integrity and unsightly or unkempt areas. These included:

- Inappropriate landscaping
- Incompatible fencing in front or side yards
- Architectural features that were not historic features of the residence
- Mechanical equipment.

Staff visited the property on April 23, 2025 and conducted a pre-contract inspection. A thorough walk-through of the exterior of the property revealed that the property is generally in good standing with proper maintenance of its historic integrity. As demonstrated in Figure 2, the exterior of the home is well maintained and its original architectural features, including smooth stucco siding, red tile roof, wrought iron railings and arched windows remain intact.

Figure 2



Findings from the pre-contract inspection show the property continues to maintain its architectural integrity and according to state and local standards and remains a qualified historical property appropriate for consideration of a Mills Act contract.

Mills Act Contract

The Mills Act contract does not require properties to return a building to its appearance during a specific historic period. However, work completed on the property should support the long-term preservation of the building and shall conform with the Secretary of Interior's Standards for Rehabilitation. All work must relate to the exterior or building systems.

The City requires Mills Act contract applicants to submit a description of work, timeline and cost estimates for the rehabilitation of the property during the first ten-year term of the contract. The Rehabilitation / Maintenance Plan (Attachment 3) provides a three-year work plan. The Mills Act contract between the property owners and the City of Fullerton includes the Rehabilitation / Maintenance Plan as an attachment and becomes binding on all future property owners. The proposed Rehabilitation / Maintenance Plan identifies qualifying exterior improvements.

The owners would need to submit a report to the City each year after the execution of the Mills Act contract to demonstrate the progress of the Rehabilitation / Maintenance Plan and to demonstrate compliance with the terms of the contract. The owners must obtain necessary building permits required for the on-going rehabilitation work and for any long-term maintenance work.

Property Tax Revenue Impacts

Staff analyzed the property tax reduction resulting from this Mills Act contract. The following estimates reduced property tax City would receive from this property, based on the Tax Assessment Worksheet in Attachment 4 and using the income method described in the Mills Act Program Guidelines.

Fullerton's Share of the Property Tax Estimated from this Property	Before Mills Act (Estimate)	After Mills Act (Estimate)
520 West Valley View Drive	\$1,400.22	\$553.34

The Assessor's estimate indicates the City would receive approximately \$846.88 less per year in property taxes (\$8,468.80 after ten years) with this contract. The estimated tax reduction to all taxing entities totals \$54,142 over the initial ten-year term. The proposed rehabilitation budget for the same period totals \$262,800.

Attachments:

- Attachment 1 – PowerPoint Presentation
- Attachment 2 – Draft City Council Resolution No. 2025-XXX
- Attachment 3 – Rehabilitation and Maintenance Plan

- Attachment 4 – Mills Act Tax Assessment Worksheet

cc: City Manager Eric J. Levitt