



Agenda Report

Fullerton City Council

MEETING DATE: DECEMBER 7, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: STEVE DANLEY, ACTING CITY MANAGER

PREPARED BY: GREGORY PFOST, INTERIM DIRECTOR OF COMMUNITY AND ECONOMIC DEVELOPMENT
HEATHER ALLEN, PLANNING MANAGER

SUBJECT: MILLS ACT CONTRACT BETWEEN CITY OF FULLERTON AND PROPERTY OWNER OF HISTORIC PROPERTY AT 241 JACARANDA PLACE

SUMMARY

Consideration of a Mills Act Contract for property located at 241 Jacaranda Place for the preservation, rehabilitation and maintenance of the historic property.

RECOMMENDATION

1. Adopt Resolution No. 2021-XX.

RESOLUTION NO. 2021-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING A MILLS ACT CONTRACT BETWEEN THE CITY AND THE OWNER OF HISTORIC PROPERTY LOCATED AT 241 JACARANDA PLACE IN THE FORM OF AN HISTORIC PROPERTY PRESERVATION AGREEMENT

2. Authorize Director of the Community and Economic Development Department to review subsequent updated schedules of improvements and maintenance items provided by the property owner pursuant to the Historic Property Preservation Agreement (Agreement) prior to the tenth anniversary of the Agreement and every tenth anniversary thereafter.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statements:

- Infrastructure and City Assets

- Fiscal and Organizational Stability.

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 fiscal impact of the Mills Act Program results in a 15.64% reduction to the City's 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. The formula used to calculate the tax savings to the property owner involves determining the property's annual net operating income by subtracting the projected rental income from the property's operating expenses (typically 30%). The annual net operating income is then divided by the State's 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 into a Mills Act contract. The Orange County Assessor's Office conducts assessment values on January 1st of every year, therefore a property must enter into a Mills Act contract by December 31st of the previous year to receive tax savings on the property.

Pursuant to the adopted Mills Act Program Guidelines, the City may process no more than ten Mills Act Contracts per calendar year. Additionally, when the total number of Mills Act Contracts approved reaches 50, City Council must adopt a resolution reauthorizing the program and specifying how many additional Mills Act Contracts it will consider. The application for the 241 Jacaranda Place property is the only application submitted in the 2021 calendar year and is the City's first property requesting a Contract.

Should the City find a property owner in breach of the contract terms or the property owner petitions for immediate cancellation of the contract, a penalty of 12.5% of the property's assessed fair market value will be imposed.

DISCUSSION

On April 21, 2020, the Fullerton City Council adopted Resolution No. 2020-38 establishing a Mills Act Program (Program) and associated Mills Act Program Guidelines authorizing the local use of the Mills Act of 1972, as amended and codified in California Government Code Section 50280 - 90 and Revenue Taxation Code Section 439. The Mills Act allows owners of historic properties to voluntarily enter into individual contracts with the City in order to receive a property tax reduction in exchange for the restoration and maintenance of their historic property.

Mills Act Contracts run for a ten-year term and automatically renew each year on the anniversary of City Council's 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 will terminate at the end of the current ten-year term.

Under the Mills Act Contract, the Orange County Assessor's Office reassesses the

historic property to determine the “Historical Property Value.” The Historical Property Value is based on the property’s income-producing potential and is used 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) included an Historic Preservation Chapter with the stated purpose to guide the preservation, protection, restoration and rehabilitation of historical resources in order to reaffirm their continuing value as a resource contributing to the vitality and diversity of the present. The Fullerton Plan’s Short-Term Action Plan supports the City’s efforts in the preservation of historic resources and identifies the development and implementation of a Mills Act Program 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 include:

- Property must be privately owned.
- Property must be subject to property taxation.
- Property must have an assessed valuation of less than \$800,000.
- Property must be residential in nature / use.

Property Background

On July 27, 2021, property owner Allen Menton submitted an application requesting approval of a Mills Act Contract for his property located at 241 Jacaranda Place. The property is located on the north side of Jacaranda Place between Highland Avenue to the west and Malden Avenue to the east (see Figure 1). The property was built in 1937 and represents a “Minimal Traditional” architectural style that was popular from 1925 to 1955.

241 Jacaranda Place is a privately owned residence located in the R-2P Zoning Designation categorized as a “Residential Preservation Zone.” Given that the property falls under a qualified historic designation and meets additional Eligibility Criteria including having an assessed valuation of less than \$800,000, the property qualifies for consideration for a Mills Act Contract.

Figure 1



The detached single-family dwelling incorporates minimal details and exhibits a more utilitarian style versus an ornamental and decorative style commonly seen in Craftsman and Tudor-style homes. The key defining features representative of this architectural style can be seen in the property's cross-gable roof with a partial-width porch supported by square wooden posts on the front elevation, paneled windows and doors throughout the structure's façade and the exterior brick chimney on the side façade. Detached garages are also typical with Minimal Traditional houses, and in line with this feature, the subject property also includes a detached garage with the same gable roof consistent with the primary structure. Though Minimal Traditional-style homes were designed to be relatively small, this home is larger than the typical Minimal Traditional single-family dwelling in that it is approximately 1,641 square feet while a typical house of this architectural style would be under 1,000 square feet.

Existing Conditions

The current property owner recently rehabilitated and partially restored previous alterations inconsistent with the historic elements of the property. The submitted Rehabilitation / Maintenance Plan outlines a list of items completed to date. According to the Rehabilitation / Maintenance Plan, the property owner completed updates to the electrical and plumbing and restored some windows, doors and landscaping.

On October 28, 2021, Staff visited the property to conduct a pre-approval inspection to determine improvement items that may require completion prior to execution of the contract. Staff took into consideration areas that may appear to have lost its historic integrity and areas that are unsightly or unkempt. These included:

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

A thorough walk-through of the exterior and interior of the property revealed that the

property is generally in good standing with proper maintenance of its historic integrity. As outlined in the Rehabilitation / Maintenance Plan (Attachment 2), the property owner completed several period-appropriate improvements, including restoration of windows and doors. As demonstrated in Figures 2 and 3, exterior landscaping is well maintained and incorporates the standard turf grass, hedges and single concrete walkway that are not uncommon of the Minimal Traditional architectural style. The property owner proposes to rehabilitate the front landscape to include water efficient, period-appropriate landscaping.

Figure 2



Figure 3



Areas noticeably out of historical context included vinyl windows located at the front elevation, exterior popcorn stucco paint around the whole structure and a dilapidated wooden side yard fence on the east side of the property. The ten-year Rehabilitation / Maintenance Plan includes these proposed improvements with completion dates noted between 2022 and 2026.

Based on the findings from the pre-approval inspection, the property continues to maintain its architectural integrity, according to state and local standards and remain a qualified historical property and would be 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 2) provides a ten-year work plan. The Mills Act Contract between the property owner 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 owner 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 owner must obtain any necessary building permits required for the on-going rehabilitation work and for any long-term maintenance work.

Property Tax Revenue Impacts

Staff has analyzed the reduction in property taxes as a result of this Mills Act Contract. Based on the Tax Assessment Worksheet shown in Attachment 3, and using the income method described in the Mills Act Program Guidelines, the following provides an estimate of the reduction of property taxes the City will receive from this property, if City Council approves the contract:

Fullerton's Share of the Property Tax Estimated from This Property	Before Mills Act (Estimate)	After Mills Act (Estimate)
241 Jacaranda Place	\$1,396.34	\$465.76

Using the Assessor's estimate, the City will receive approximately \$930.58 less per year in property taxes (\$9,305.80 after ten years) as a result of this contract. Over the initial ten-year term, the estimated tax reduction to all taxing entities totals \$59,500. The proposed rehabilitation budget for the same period totals \$63,455.

Attachments:

- Attachment 1 – Draft Resolution No. 2021-XX
- Attachment 2 – Rehabilitation / Maintenance Plan
- Attachment 3 – Tax Assessment Worksheet