



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MARCH 19, 2024

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARDS: ALL
DEPARTMENT

SUBJECT: MILLS ACT FEES ADJUSTMENT

ISSUES:

Conduct a Public Hearing on an adjustment to Mills Act Fees.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing on the City of Riverside's Proposed Mills Act Fee reduction; and
2. Adopt a Resolution approving the Proposed Mills Act fees, retroactive to January 1, 2024.

BOARD RECOMMENDATION:

On July 19, 2023, the Cultural Heritage Board (CHB) held a discussion to provide input regarding the City Council's consideration of Mills Act fee adjustment.

Following the staff presentation and discussion, a motion was made to find that the community benefits from the maintenance, preservation, and restoration of the historic resource through the Mills Act program greater than the property owner to justify a reduction of fees and requests that City Council:

1. Consider an adjustment of all Mills Act fees (Application and Contract Initiation Fees) to equal a cost recovery of 30% by the applicant and subsidy of 70% by the City;
2. Remove the 14% City Surcharge from all Mills Act fees; and,
3. Add no new fees to the cost of the Mills Act program;

The CHB voted unanimously on the motion, with two absences.

BACKGROUND:

Enacted by the State of California in 1976, the Mills Act grants local governments the ability to

provide property tax abatements to the owners of qualified historical properties. To receive the property tax abatement, property owners must enter into an agreement that commits them to making capital improvements to rehabilitate, restore, preserve, or maintain their qualified historical property. State Law governing the local jurisdiction of the Mills Act Program is found in the California Government Code, Article 12, Section 50280 through 50290 (Historic Property Contracts). Section 50281.1 allows legislative bodies to require a fee not exceeding the reasonable cost of implementing the Mills act program.

In 2004, City Council adopted Resolution No. 20825 to implement the Mills Act Program (Program) in Riverside. The Program encourages preservation of designated historic districts and individual properties throughout the City. This, in turn, preserves property values and ensures preservation of the City's tangible links to the past for future generations.

Since being enacted in 2005, the fees for the Mills Act program have been adjusted three times. The following table outlines the user fees associated with the Mills Act:

Resolution No.	Approval Date	Fee Type	Fee Amount	Cost Recovery	Maximum Contracts Allowed	Number of Contracts Awarded
21001	August 9, 2005	Application Fee	\$53 (\$42 base fee + \$11 document imaging)	100%	7	2005 – 6 2006 – 8 2007 – 7 2008 – 6 2009 – 4 2010 – 9 Average – 6.7
		Contract/Review Initiation Fee	\$572	100%		
21960	July 12, 2010	Application Fee	\$114 (\$73 base fee + \$41 document imaging)	70%	10	2011 – 1
		Contract/Review Initiation Fee	\$418	70%		
22227	June 21, 2011	Application Fee	\$137 (\$86 base fee + \$51 document imaging)	80%	10	2012 – 2 2013 – 5 2014 – 4 2015 – 5 Average - 4
		Contract/Review Initiation Fee	\$489	80%		
22904	September 8, 2015	Application Fee	\$404 (\$189 base fee + \$189 document imaging + 14% City Surcharge [\$26])	90%*	10 until 2021 20 in 2022	2016 – 1 2017 – 5 2018 – 6 2019 – 7 2020 -11 2021 – 7 2022 – 18 2023 – 17 Average – 7.9
		Contract/Review Initiation Fee	\$3,274 (\$2,872 base fee + 14% City Surcharge [\$402])	90%*		
24003	June 20, 2023	Application Fee	\$404 (\$189 base fee + \$189 document imaging + 14% City Surcharge [\$26])	15%**	20	None at time of report submission
		Contract/Review Initiation Fee	\$3,274 (\$2,872 base fee + 14% City Surcharge [\$402])	86%**		

*Based on 2015 User Fee and Charges Study

** Based on 2024 User Fee and Charges Study, currently in process.

As part of the adoption of the user fees and charges in 2010, the City Council implemented a plan

to increase fees to a 90% cost recovery. The plan began in 2010 with a 70% cost recovery, which increased during subsequent user fee adoptions. In 2015, the City Council approved a 4% Technology recovery cost surcharge to cover the cost of updating the City's permitting and project tracking system to a web-based system. Mills Act fees were also added to the list of fees subject to the City's 10% General Plan Maintenance Surcharge. The General Plan Maintenance Surcharge is intended to aid in covering the cost of the State required update of the General Plan. The Technology Recovery fee and General Plan Maintenance Surcharge total a 14% City Surcharge.

On May 10, 2023, the Financial Performance and Budget Committee (FPBC) considered adjustments to the City's User Fees and Charges Schedule for the Fiscal Year 2023-2024. As part of the review, the FPBC considered adjustments to the Mills Act fees. Following discussion, the FPBC directed staff to not increase the Mills Act fees as part of the 2023-2024 Fiscal Year fee adjustment and referred the fees to CHB for review and comment (Attachment 1 – Exhibit 1). On June 20, 2023, the City Council adopted Resolution #24003, City's User Fees and Charges Schedule for the Fiscal Year 2023-2024, in which the Mills Act fees remained unchanged.

The Mills Act fee adjustment was reviewed by CHB on July 19, 2023, and the board provided a recommendation to reduce Mills Act fees and remove all City Surcharges and added fees (Attachment 2).

As a matter of information, a citywide fees and charges study is currently in process. As part of the study, a cost analysis was prepared to determine the cost to administer services and programs, including the Mills Act Program. The analysis found that the cost to review applications, prepare contracts for approval, and administer the Program increased since the last User Fee and Charges study completed in 2015. Under the 2015 study the cost to review applications was \$420 per application and the cost to administer the Program was \$3,191 per contract. The study currently in process found the application review cost was \$2,554 per application and the cost to administer the Program was \$3,359 per contract. Based on the current study and without the 14% City surcharge, the current \$378 Application fee is equal to a 15% cost recovery and the current \$2,872 Contract Initiation fee is equal to a 86% cost recovery. This information is provided in the table above.

DISCUSSION:

State law regarding Mills Act contract implementation provides flexibility allowing each jurisdiction to develop a program that best fits the needs of that jurisdiction. Jurisdictions also have varying approaches to fees. Each jurisdiction makes the determination of how to set the fees, based off their costs to administer the program. The table present below outlines the various approaches to Mills Act fees in other Southern California jurisdictions.

Jurisdiction	Fee Type	Fee Amount	Approximate Cost Recovery	Fee Goal	Maximum Contracts Allowed	Number of Contracts Awarded (Last 5 years)
Anaheim	None	\$0	0%	Encourage preservation	No Max	2018 – 10 2019 – 6 2020 – 8 2021 – 9 2022 – 12

Corona	Processing Fee	\$2,138	100%	Full cost recovery	No Max	2018 - 3 2019 - 1 2020 - 0 2021 - 1 2022 - 0
Glendale	Application fee – Property valuation up to \$750,000	\$1,333.75	Unknown*	Tiered Incentive program for varying property valuations	No Max	2018 - 2 2019 - 9 2020 - 1 2021 - 4 2022 - 5
	Application fee – Property valuation \$750,000 to \$1,000,000	\$2,134	Unknown*			
	Application fee – Property valuation \$1,000,001 to \$1,400,000	\$3,201	Unknown*			
	Application fee – Property valuation \$1,400,001 or above	\$3,734.50	Unknown*			
Long Beach	Pre-application eligibility determination	\$237.60	12%	Incentivize the program	12 SFR 3 Duplex/Triplex 4 MFR 1 Non-residential	2018 – 19 2019 – 11 2020 – 13 2021/22 – Program on hold
	Application	\$2,700	43%			
Ontario	Application Fee - Homeowner	\$214	3%	Encourage landmark designation and adaptive reuse	No Max	2018 – 1 2019 - 4 2020 - 1 2021 - 4 2022 - 1
	Application Fee – Non-homeowner	\$703	10%			
Pasadena	Contract Signing Fee - SFR	\$1,298.50	Unknown*	Partial Cost recovery, adjusted annually based in CPI	20 SFR 6 MFR	2018 – 22 2019 – 23 2020 – 21 2021 – 15 2022 – 15
	Contract Signing Fee - MFR	\$2,597	Unknown*			
Pomona	Application Fee	1% of property value	5-7%	Incentivize program, low-income community.	No Max	2018 – 1 2019 – 0 2020 – 4 2021 – 5 2022 – 11
Redlands	Application Fee	\$480	100%	Full Cost Recovery	7	2018 – 1 2019 – 1 2020 – 0 2021 – 0 2022 - 1

* No fee study completed by jurisdiction, unable to determine cost recovery.

As part of the CHB discussion, board members reviewed the Mills Act fees in comparable cities, using population and city expenditures per capita as a means of comparison. CHB identified that while Riverside did not have the highest fees among comparable cities, other cities generally

charged lower fees for Mills Act applications and administration, primarily through a lower cost recovery. It was acknowledged that a fee should be collected, but at a lower rate. Additionally, CHB suggested that the 14% City surcharge fee for technology improvements and General Plan update should not be included as part of the Mills Act fees.

Following discussion, CHB found that the community benefits from the maintenance, preservation, and restoration of historic resources through the Mills Act program. Property owners with Mills Act contracts generally spend more on property maintenance and rehabilitation than the tax reduction received from the Program. This puts additional funds back into the economy. Additionally, the community benefits from increased property values when the property is maintained in good condition. Therefore, CHB found that a reduction of fees would be justified due to the community benefit and recommended all Mills Act fees be set at a cost recovery amount of 30% paid by the applicant and 70% of the cost subsidized by the City.

Based on the 30% cost recovery recommended by CHB, the current and proposed Mills Act fees would be as follows:

- Under the adopted 2015 fee study without the 14% City surcharge:
 - 100% of 2015 Fee Cost Recovery: \$420 (application) + \$3,191 (contract) = \$3,611
 - 30% of 2015 Fee Cost Recovery: \$126 (application) + \$957 (contract) = \$1,083
 - City Subsidy Under Current Study: \$2,428 (application) + \$2,402 (contract) = \$4,830
 - City Surcharge: Not Applied
- If the proposed user fee is adopted without the 14% City surcharge:
 - 30% Subsidy: \$766 (application) + \$1,008 (contract) = \$1,774
 - 70% City Subsidy: \$1,788 (application) + \$2,351 (contract) = \$4,139
 - City Surcharge: Not Applied

STRATEGIC PLAN ALIGNMENT

This item contributes to the Envision Riverside 2025 City Council Strategic Priority 1 – Arts, Culture and Recreation (Goal 2.3 – Strengthen Riverside’s portfolio of arts, culture, recreation, senior, and lifelong learning programs and amenities through expanded community partnerships, shared use opportunities, and fund development). In addition, the project aligns with the five Cross-Cutting Threads as follows:

1. **Community Trust** - The Mills Act Program aligns with the Community Trust Cross-Cutting Thread as the annual contracts are reviewed at a public meeting by the City Council, allowing for public comment.
2. **Equity** - The Mills Act Program aligns with the Equity Cross-Cutting Thread as it is available to all historically designated properties throughout the City.
3. **Fiscal Responsibility** - The Mills Act Program aligns with the Fiscal Responsibility Cross-Cutting Thread as it provides opportunity for property owners to reinvest back into the community through rehabilitation of the historic property.
4. **Innovation** - The Mills Act Program aligns with the Innovation Cross-Cutting Thread as it responds to the high financial demands of historic property maintenance and helps the property owners through reduced property taxes.
5. **Sustainability and Resiliency** - The Mills Act Program aligns with the Sustainability &

Resiliency Cross-Cutting Thread as it assists with the rehabilitation and maintenance of historic properties so that they can continue to contribute to the character of the City for generations to come.

FISCAL IMPACT:

Mills Act fees are intended to offset the cost of administering the Program. Under the currently adopted 2015 fee study with a 90% cost recovery, excluding the 14% City surcharge, the cost to City's General Fund was \$361 per application/contract. With a maximum of 10 contracts a year at the time, the estimated total impact on the General Fund from the Program was \$3,610, annually. With the revised cost identified under the current fee study, excluding the 14% City surcharge, the current fees and maximum number of 20 contracts have a cost to the General Fund of \$2,663 per contract and a potential total cost of \$53,260 annually.

With the proposed 30% cost recovery of the full cost under the currently adopted 2015 fee study, the proposed fee for the 2023/2024 Fiscal Year would recover \$1,083 per application/contract and the remaining \$4,830 per application/contract will be paid from the General Fund. With a maximum of 20 contracts, the potential total cost to the General Fund would be \$96,600. Additionally, with the removal of the 14% City Surcharges (Technology Fee + General Plan Update Fee) an additional \$152 per application, for a potential total of \$3,040 will not be collected to aid in technology maintenance and funding the General Plan update.

If the currently in process fee study is adopted, with a 30% cost recovery, the proposed fee in the 2024/2025 Fiscal Year will recover \$1,774 of the Program cost and the remaining \$4,139 of the Program will be paid from the General Fund, per application. With a maximum of 20 contracts, the proposed fee adjustment has the potential to impact the City's general fund by \$87,780, annually. With the exclusion of the 14% City Surcharges from future fees, a \$248 per application, for a potential total of \$4,960 will not be collected to aid in technology maintenance and funding the General Plan update.

The Program also provides a reduction in property taxes collected on the property. The City receives approximately 12% of the property tax collected annually by the County. For FY2024/25, the estimated reduction in the City's property tax revenue from the current 126 properties that are part of the Program is approximately \$63,461. This is an estimate only as the reduction is dependent on tax rates and the number of properties in the Program.

There is no fiscal impact to the retroactive fee adoption with an effective date of January 1, 2024; no fees have been collected in the 2024 calendar year.

Prepared by:	Scott Watson, Historic Preservation Officer
Approved by:	Jennifer A. Lilley, Community & Economic Development Director
Certified as to availability of funds:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by:	Rafael Guzman, Assistant City Manager
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. CHB Staff Report July 19, 2023
2. CHB Minutes July 19, 2023
3. Resolution
4. Public Notice
5. Presentation