



CITY OF EUREKA

Mills Act Historic Property Tax Incentive Program

Effect of the Adoption of the Mills Act Program on Public Agencies

Once a property owner enters into a Mills Act Historic Property Contract with the City, the Humboldt County Assessor is required to annually assess the property in the manner specified in the California Revenue & Taxation Code, Sections 439-439.4. The ideal result is lower property taxes ranging from approximately 15% to 60% below the property tax as assessed under Proposition 13. Obviously, if the property tax for properties subject to the Mills Act is reduced then the revenues received by public agencies generated by property taxes collected within the City will be reduced.

These public agencies include not only the City but also the Humboldt County General Fund, County Library, Humboldt Bay Harbor, Recreation and Conservation District (HBHRCD), and the Humboldt Bay Municipal Water District (HBMWD).

Within the City there are approximately 28 tax rate areas, each tax rate area potentially having different property tax assessments; for example, some tax rate areas have added school bonds. In addition, each tax rate area may have differing percentages of disposition of the collected taxes to the public agencies. This means that property taxes are not alike throughout the City. Consequently, it is difficult to determine what the exact Mills Act tax savings will be, and thus equally difficult to predict the exact fiscal impact to the public agencies as a result of the City's adoption of the Mills Act.

Notwithstanding, in an effort to illustrate the potential effect, on the following page is the tax savings example shown in the handout titled Mills Act Contract Tax Savings Estimate Example set alongside a table estimating the fiscal impact to the public agencies.

Tax Savings Example, Owner Occupied Single family Residence

<u>Mills Act Restricted Assessment</u> <u>Income Approach to Value</u>		<u>'Normal' Prop 13 Assessment</u> <u>Market Approach to Value</u>
GROSS INCOME		1) The subject property recently sold for \$150,000. The sales comparison approach to value is employed using the sales of similar historical properties (adjusted for differences between those properties and the subject property) at time of sale. 2) Sales in the subject property's area confirm that the sales price of the property (\$150,000) was the fair market value of this property as of the date of sale.
Gross Income (\$850/mo x 12)	\$10,200	
Vacancy & Col. loss (5%)	\$(510)	
Effective Gross Income	\$9,690	
EXPENSES		
Maintenance <\$600		
Insurance <\$400		
Total Expenses	\$(1,000)	
Net Operating Income (NOI)	\$8,690	
CAPITALIZATION RATE		
Interest Rate (year 2005)	6.00 %	
Risk Rate (4%for owner-occupied residences, 2% for all others)	4.00 %	
Depreciation Rate	3.30 %	
Tax Rate	1.00 %	
Total Cap Rate	14.30 %	
CAPITALIZATION OF NET INCOME		
NOI/Cap Rate	\$8,690/14.30%	\$60,769
Mills Act Restricted Value:	\$60,769	Prop 13 Assessed Value: \$150,000
Estimated Property Taxes:	\$608	Estimated Property taxes: \$1,500
ESTIMATED TAX SAVINGS = \$892¹		

¹ \$892 is derived from subtracting the estimated property tax of \$608 from \$1,500

Estimated Fiscal Impact to Public Agencies

Stakeholders			
Public Agency	Incremental Factor	Estimated annual revenue reduction	Total Revenue per agency gained from property taxes
County General	0.305327	\$1,361.76	\$11.8 mil
City of Eureka	0.162324	\$723.97	\$1.1 mil
County Library	0.028707	\$128.03	\$1.3 mil
Humboldt Bay Municipal Water District	0.011111	\$49.56	\$489,000
Humboldt Bay Harbor Recreation & Conservation District	0.008835	\$39.40	\$555,000

sub totals 52% \$2302.72

Schools			
Public Agency	Incremental Factor	Estimated annual revenue reduction	Total Revenue per agency gained from property taxes
Eureka Elem. School	0.215437	\$960.85	\$3.3 mil
Eureka High School	0.192608	\$859.03	\$4.6 mil
Redwoods Joint Junior	0.061676	\$275.07	\$4.5 mil
County School Service	0.013975	\$62.33	\$1 mil

sub totals 48% \$2157.28

***totals* 100% \$4,460.00²**

Although School Districts also receive revenue generated from collection of property taxes, under the Mills Act legislation the State will make up the difference in revenue to the schools so that there isn't an overall reduction in the school's revenues from property taxes collected after recording of Mills Act Contracts.

² \$4460.00 is derived from taking the Estimated Tax Savings of \$892, from the left side of this page, and multiplying by five, which is the total number of Mills Act Contracts allowed in the Pilot Program