CITY OF EUREKA

Mills Act Historic Property Tax Incentive Program

Mills Act Contract Tax Savings Estimate Example

It is a common misconception that a property listed on an inventory of historic properties automatically qualifies it for preferential property tax treatment such as that outlined in the Mills Act and specified in Revenue & Taxation Code Sections 439 et. seq. While the Mills Act was designed to promote the preservation of historic properties, it takes more than simply being included on a federal or state historic list/register, or being included in an inventory of local historic properties. To qualify for the preferential property tax treatment, a historic property must be a "*Qualified Historic Property*" as described in the City's adopted Mills Act program and it must also be encumbered by a "*Mills Act Historic Property Contract*" (as specified in California Government Code commencing with Section 50280).

According to the various applicable laws, once the property owner enters into a Mills Act Historic Property Contract with the City of Eureka, the Humboldt County Assessor will be required to assess the property in the manner specified in California Revenue & Taxation Code Sections 439-439.4, effective on the lien date following the date the contract is signed.

Historic properties which qualify for the preferential property tax treatment may benefit in property tax reductions which can range anywhere from 15% to 60% below the property tax they would pay if assessed under Proposition 13. Such qualified properties fall outside Proposition 13 and are reassessed annually using formulas specified in those Revenue and Tax code sections. The assessed property taxes may change from year to year.

An example of estimated property tax savings for an owner occupied single-family residence is shown on the following page.

THE CITY OF EUREKA AND THE COUNTY ASSESSOR MAKE NO REPRESENTATION REGARDING TAX SAVINGS, IF ANY. EACH APPLICANT FOR A MILLS ACT CONTRACT SHOULD CONSULT WITH THEIR OWN TAX ADVISOR TO DETERMINE THE POTENTIAL TAX BENEFITS, IF ANY.

Tax Savings Example
Owner Occupied Single family Residence

Mills Act Restricted Assessment			**'Normal' Prop 13 Assessment**
Income Approach to Value			***Market Approach to Value***
GROSS INCOME			
Gross Income ($850/mo x 12)		$10,200	
Vacancy & Col. loss (5%)		$(510)	
Effective Gross Income		**$9,690**	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.
EXPENSES			
Maintenance	<$600		
Insurance	<$400		
Total Expenses		**$(1,000)**	
Net Operating Income (NOI)		**$8,690**	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.
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 = $892