

City of Los Angeles, Department of City Planning
Office of Historic Resources
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September 14, 2022

Dear Office of Historic Resources,

The conclusions drawn from the “Mills Act Assessment Report 2022” commissioned from Chattel Architecture and AECOM are irremediably flawed in that the report: (1) draws conclusions at the contract level rather than the housing unit/household level, (2) fails to take the distribution of historic buildings into account, (3) utilizes equity or opportunity indices that are not validated, (4) presents no viable underlying socio-demographic data to support any of its assertions, conclusions and recommendations, (5) fails to show how sunseting the existing contracts will achieve program sustainability and equity, (6) makes recommendations that undermine housing affordability and the current incentives for maintaining the historical residential buildings in the downtown Los Angeles community, and (7) fails to rationally explain how eliminating the Mills Act program in downtown Los Angeles will safeguard social equity and affordable housing in other areas.

1. The report equates single-family property contracts with condominium property contracts by comparing them at the contract level rather than the housing unit/household level, stating that “Condominium properties represent only 3 percent of the program (26 properties), but 33 percent of Mills Act savings....” It’s not surprising that condominiums represent more savings than contracts — each contract represents potentially hundreds of units. Why does the report fail to consider condominiums as multi-family residential properties with separate ownerships, housed in one structure? If the goal is efficiency and low staff burden, then multi-family buildings should be privileged: one contract, many households. As it stands, the report presents no logical reason for this exclusion.

2. The report fails to take the geographic distribution of historic buildings into account. Any discussion of equitable distribution across neighborhoods needs to consider the distribution of historic buildings. Large scale Mills Act eligible buildings are heavily concentrated in certain neighborhoods like downtown. So, while the report states that “50 percent of Mills Act savings went to Mills Act properties located in Downtown,” it fails to note that a concentration of extant historic properties are located there because it was, for decades, the thriving commercial and entertainment hub of the city. Accordingly, the application of any equitable distribution metric needs to be relative to the potential eligible buildings.

3. The report utilizes equity or opportunity indices that are not validated and are subject to large variance. As presented by the report, the LA Equity Index is a compendium of variables that could be used to measure neighborhood features, however it is not validated against any

particular outcome. Compounding this problem is the failure to fully describe the methodology that was applied (the Assessor's Office also does not appear to provide methodology for the Index online).

As an example, the Census tract including the Douglas Building has a score of 6.5/10 on the LA Equity Index, the second highest category implying low-medium barriers to opportunity (i.e., higher opportunity). On the state's Opportunity Map (<https://belonging.berkeley.edu/2022-tcac-opportunity-map>), which guides affordable housing development investment, the same Census tract is considered "low resource." This is the second lowest category and in the bottom 40% of tracts in LA County. Both indices claim to measure education, economic, and environmental features, yet they achieve very different conclusions about whether the Douglas Building's neighborhood provides opportunities. The point is not that one index is better, but that these indices are potentially flawed and not validated. Any index like this must be created with a specific program goal in mind, and not as a guide for all programs.

Another major flaw is that the index employed does not take neighborhood change or gentrification into account. As such, it fails to provide displacement protection in gentrifying areas. This also overlooks how in the case of the downtown Los Angeles Historic Core, Mills Act condominium buildings help to revitalize a once abandoned city center by attracting new residents and investments. Indeed, the tax-paying residents of the downtown community's historic properties — who were and remain committed to realizing and sustaining downtown's ongoing revitalization — have contributed substantially to the city's coffers via a hundreds-fold increase in downtown property taxes. It is their presence that established and created a welcoming climate for new business and what that brings, including increased employment opportunities and city revenue.

4. The report fails to present viable underlying socio-demographic data to support its assertions, conclusions and recommendations. This undeniable fact is readily admitted in the report's Project Limitations section at page 10 of the Introduction. It states: "The following data sources are not presently reflected in this study:

- Racial equity analysis ...
- Review of gentrification and displacement data ...
- Program-wide interviews or surveys of existing Mills Act property owners ...
- Inclusion of properties identified as potentially eligible for designation through SurveyLA ...
- Historical data on Mills Act contract savings ...
- Assessor data on last owner change to study the length of ownership."

In addition, because, as the report states, "several data limitations were encountered in the course of research, generally due to budget and time constraints," only three property owners **with** Mills Act contracts (described as "stakeholders") were contacted and interviewed for this study; one, a property management company, the other two, for-profit developers. This means no residential property owner in any of the downtown Los Angeles condominium properties with Mills Act contracts were contacted or consulted for this report.

5. The report fails to show how sunseting the existing contracts would achieve the dual program goals of sustainability and equity. Sustainability and equity are not mutually exclusive, and there is no need to sunset existing contracts to achieve stated equity goals if the funding needs are met. Indeed, were some, if not all, of the funding proposals made in the report adopted, the stated funding goals would more easily be achieved by retaining the existing contracts.

For example, Contract Maintenance Fees alone (excluding all other program fees being considered in the report) would add multiple times more money to the program than the estimated \$70,000 to \$140,000 that attendees were told in the August 8 hearing has been allocated annually to the Program from the Planning Committee's share of the General Funds over the years.

Per the report and based on the approved fee amount of \$538.60 per property per year, and 948 properties currently under contract, the potential revenue stream dedicated to the program should generate \$510,024 annually. This is \$370,000 more than the \$140,000 we were informed is the most the program has received in a year. Clearly, \$510,024 would go a long way to supporting the reported need for an expanded staff devoted full-time to the management and administration of the program, as well as equipping them with a new database system. In addition, were the City to assess condominium properties separately, based on the number of units on the property — which is also recommended in the report — even more money would be dedicated to the program. None of this will be achieved by sunseting the existing contracts.

6. Some of the report's recommendations undermine housing affordability and the current incentives to maintain historical residential buildings in downtown Los Angeles. A Mills Act contract makes historic properties more appealing to potential new owners and first-time buyers because it offers a tax incentive and advantage that other non-historic properties lack. Most of the historic properties cannot physically accommodate or offer the kind of amenities available in the new high-rise properties surrounding our area, such as gyms, movie theaters, game rooms, bars, spas, rooftop gardens. The value of the historic buildings lies in their intrinsic worth as historic gems. Our Mills Act contracts keeps them that way by contributing to the preservation and maintenance of the unfortunately few historic properties that remain in downtown Los Angeles.

Condominiums under the Mills Act provide affordable homeownership. Data from the MLS (Multiple Listing Service) from August 2021-August 2022 shows that the average sales price for Mills Act downtown Los Angeles Condos is \$595,000. Compare this with data from the California Association of Realtors showing the Median SFH (Single Family Home) price is \$750,860; the median California Condo price is \$575,450; and the Median Home Price in the Los Angeles Metropolitan area is \$680,000. In general, the average sales price for downtown Los Angeles condos with Mills Act contracts is 15% below the Los Angeles Median SFH price, and 20% below the California SFH price.

7. The report fails to explain how eliminating the Mills Act program in downtown Los Angeles will safeguard affordable housing and promote social equity in other areas. The majority of the multi-family Mills Act eligible properties in the report are under the Rent Stabilization Ordinance (RSO). The RSO's Primary Renovation Cost Recovery Program and Tenant Habitability Program

were created to make sure there is no net loss of affordable rental units during rehabilitation. How does elimination of our Mills Act contracts ensure greater safeguards for retaining affordable units in other areas? What connection exists between the two?

Similarly, the LA Conservancy’s article titled “Historic Multi-Family Housing”, states that the primary cause of loss of historic multi-family housing is the Small-Lot Subdivision Ordinance. Yet, the report does not explain how sunseting existing Mills Act Contracts in downtown Los Angeles, while expanding the program in other areas, can reverse the consequences of this ordinance in other communities. Mills Act benefits do not represent a profit to be spread across and used by the owners of RSO properties as they see fit. Mills Act benefits are tax savings that must be reinvested to restore and preserve historic properties. These statutory requirements carry serious penalties if not met.

In addition to the above enumerated deficiencies, it bears mentioning that the downtown Los Angeles historic property owners were astonished to learn at the eleventh hour that the Mills Act Program was so disastrously underfunded and understaffed (as reported both in the hearings and the assessment). We were never previously informed (1) of the risk to the program’s sustainability; (2) that only two City employees are tasked with part-time management and administration of the program and its nearly 1000 contracts; and (3) of the City’s repeated failure to increase requested program funding in response to the program’s significant expansion. It is unconscionable to now fall back and use these past failures as a reason to sunset older existing contracts with program-compliant property owners -- particularly as we were never forewarned of this dire situation.

To conclude, while there are recommendations in the report we are inclined to support — such as adopting program-dedicated fees which would expand staff and significantly contribute to the program's fiscal sustainability — we strongly maintain the conclusions drawn in the report are irretrievably flawed. In order to avert further escalating this matter, we request and strongly recommend that the Los Angeles Planning Department adopt a more equitable and transparent course of action -- one that benefits all parties, and the community, who are dedicated to the continued revitalization and preservation of historic downtown Los Angeles.

Sincerely,

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