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# CITY OF LOS ANGELES

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February XX, 2023

Cultural Heritage Commission,
Los Angeles Department of City Planning

Ken Bernstein
Director,
Office of Historic Resources,
Los Angeles Department of City Planning

Lambert Giessinger
Historic Preservation Architect,
Office of Historic Resources,
Los Angeles Department of City Planning

VIA EMAIL

**Re: Proposed Mills Act Amendment**

To Whom It May Concern:

At a special public meeting on February 13, 2022, the Board of Directors of the Downtown Los Angeles Neighborhood Council ("DLANC") voted to provide the following comments on the City's assessment of the Mills Act Historic Contract Program, now underway:

Since the creation of the Adaptive Reuse Ordinance (ARO) in 1999, Downtown Los Angeles has transformed into a 24-hour community with many historic and architecturally significant structures saved, restored, and converted to housing and other mixed-uses. The ARO, coupled with the Mills Act, can be credited to this significant transformation in our community and equally for the creation of Affordable Housing, and an increase in first-time property ownership for many in our community.

While DLANC and its constituents recognize the need for reforms to the Program, particularly with regard to costs associated with its administration and enforcement, DTLA constituents have concerns about the adoption of several recommendations proposed by Chattel, including the unconditional revision of all existing contracts, the revocation of automatic 10 year renewals that “sunset” a properties participation in the Program after 20 years, and the elimination of the existing valuation exemption.

In a time of increasing housing unaffordability and economic uncertainty, we encourage the City to consider the broader economic and social benefits of the Program, namely how it shields renters from the costs associated with historic preservation, and how it helps to diversify our neighborhoods. *Since 2013, the Mills Act program has helped facilitate an increase of 19,342 apartments downtown.* Many are concerned about the impact that a decision to “sunset” all contracts after 20 years will have on the continued growth of housing downtown. *Such a decision betrays the complex financing mechanisms required to restore and preserve some of the City’s greatest cultural assets. The automatic renewal feature of the current Program provides lenders the necessary conditions and confidence to finance and construct historic restoration, including that of badly needed affordable housing in DTLA. Reduced access to financing is just one of the many unintended consequences of Chattel’s recommendations, which ultimately impact and increase risks of displacement of Downtown’s low and middle-income residents.*

The proposed elimination of existing valuation exemptions is another threat to the continued restoration and preservation of the historic building stock across the downtown area. In their 2020 *Preservation Positive* report, LA Conservancy found the average cost of historic rehabilitation to be $198.43 per square foot. However, when added to the $30 - $100 per square foot cost of complying with the City’s 2015 Non-Ductile Concrete (NDC) Ordinance, costs to rehabilitate downtown historic properties can reach as high as $298 per square foot. The City’s NDCO working group cited the Mills Act as an important, “economic incentive,” that helps offset these costs. By removing the valuation exemption the City would effectively disqualify most historic downtown buildings.

Limiting participation for eligible DTLA properties to 20 years, ending automatic renewals, and eliminating valuation exemptions will criple future historic preservation efforts across downtown, which in turn would harm the City’s effort to protect character-defining and culturally significant buildings, homes, and places in our community.

Therefore, DLANC recommends OHR and the CHC consider the following recommendations:

- Continue the 10 Year Automatic Renewals of the Mills Act: Historic preservation/ renovation is extremely costly and owners rely on bank loans to maintain and restore historic buildings. Bank loans are made based upon the appraised value of the building. The property’s appraised value is significantly reduced if the Mills Act does not automatically renew. As a result of the reduced appraised value from the non-automatic renewals of the Mills Act, banks loan less dollars, and the high costs of preservation cannot be financed.
- The Mills Act Exemption for downtown LA should be maintained and not removed: With the high cost of construction, major buildings would not qualify under the proposed valuation cap. Therefore, the Mills Act exemption for Downtown LA should be maintained.
- The affordability housing requirement should remain separate from the Mills Act since the Act is the only financial incentive that the City of Los Angeles provides for preservation: If an affordable

housing requirement is imposed to receiving the Mills Act, then development costs will be substantially increased and will deter owners from completing historic preservation.

- Include Qualified Census Tracts as a Priority Consideration Criteria as defined in LAAC Sec. 19.142.
- Issue waivers to new caps (years and building value) to historic buildings within an LA JEDI Zone.
- Audit the performance of consultants hired to perform, on the City's behalf, tasks associated with the Mills Act Program, including annual compliance inspections and program administration
- Work with the Department of Building & Safety and the City Attorney to develop a cohesive enforcement strategy through the creation of an Ordinance to create a cohesive contract termination and citation structure for properties not in compliance.
- Create provisions in the Mills Act program to factor inflation and rising costs for historic preservation - this can include an audit of the program by OHR every 5 years to assess the program's health.
- Create robust tenant anti-displacement measures to protect multi-family and affordable housing units that participate in the Mills Act program, particularly with properties seeking entry into the program.
- Investigate less burdensome eligibility requirements to reduce the barrier of entry for under-represented and other at-risk communities.
- Create an Open Data system to show the department's distribution of participating properties, inspections, and non-compliance/enforcement efforts.
- Seek alternatives to the contract-renewal process to develop a framework/timeline for proposed improvements to historic properties due to the cost, time, and technical challenges related to historic preservation.

* SUBJECT TO APPROVAL BY DLANC BOARD OF DIRECTORS ON FEBRUARY XX, 2022 *

Sincerely,

Claudia Oliveira
President,
DLANC

Ryan Afari
Chair,
DLANC Planning & Landuse Committee

Cc: Office of Historic Resources, Department of City Planning (via email)
External Affairs Unit, Department of City Planning (via email)
Council District 14 (via email)
Council District 1 (via email)

**Mills Act Calculations/ Benefits**
**Comparison between Mills Act & No Mills Act**

| | | Without Mills Act | With Mills Act | MILLS ACT BENEFITS<br>Mills Act Savings |
|---|---|---|---|---|
| ***Property Tax Calculation*** | Income | $22,500 | $22,500 | |
| | Cap Rate | 0.05 | 0.1 | |
| | Value of Unit | $450,000 | $225,000 | |
| | | | | |
| | Property Tax Rate | 1% | 1% | |
| | Property Tax Bill | $4,500 | $2,250 | **$2,250** |

| | | Without Mills Act | With Mills Act | Mills Act Increase in Value |
|---|---|---|---|---|
| ***Property Value Calculation*** | Original Income | $22,500 | $22,500 | |
| | Less Property Tax Savings | 0 | 2,250 | |
| | Total Income | $22,500 | $24,750 | |
| | Cap Rate | 0.05 | 0.05 | |
| | Value of Unit: | $450,000 | $495,000 | **$45,000** |

| | | Without Mills Act | With Mills Act | Mills Act Loan Increase |
|---|---|---|---|---|
| ***Loan Calculation*** | Value of Unit: | $450,000 | $495,000 | |
| | Loan to Value: | 0.75 | 0.75 | |
| | Loan Amount | $337,500 | $371,250 | **$33,750** |

**NOTES:**

1 The leverage: for every dollar of benefit, the project benefits by $19.
2 There is no better financial catalyst for the preservation of historic buildings.
3 Without the automatic renewal, the lender's appraisal will not allow an increase in value.  Without the increase in value, there is no increase in loan.