INTRODUCTION & BACKGROUND

This report provides background information about the four applications for Historic Property Preservation Agreements (Mills Act Contracts) and recommends that the Landmarks Commission forward to the City Council a recommendation in support of these Mills Act Contract requests. A copy of each property’s architectural report and rehabilitation/maintenance plan are attached (Attachments A-D) for reference.

Mills Act Summary

The Mills Act is a State law that enables cities to enter into property-tax reduction contracts with property owners of qualified historic structures, provided that certain conditions are met. The City adopted the Mills Act as part of its Landmarks Ordinance in 1992. The property owner of a building or structure that is designated as a local Landmark, Structure of Merit or as a contributing building in a designated Historic District qualifies as a candidate for a Mills Act Contract.

The Mills Act Contract is one of the most valuable incentives offered by the City to property owners. Mills Act Contracts can provide tax benefits for both owner-occupied and income-producing properties. Once approved by the City Council, a Mills Act Contract requires the Los Angeles County Assessor’s Office to determine the value of the historic property based upon its ability to generate income ("Income Approach" to value),
rather than the regular method of assessment commonly known as the "Market Approach". In the “Income Approach”, after a contract has been executed, the County Assessor values the property according to the capitalization of income, whereby the property’s potential income is divided by a pre-determined capitalization rate to determine the new assessed property value.

In the case of an owner-occupied property, the income projection is based on comparable rents for similar properties in the area, or, if insufficient rental information is available, the income that the property could reasonably be expected to produce. The income amount on a commercial property is based on the actual rent received. The property tax break realized by the property owner is subject to initial review and annual reassessment by the Los Angeles County Assessor’s Office.

In exchange for a reduction in property taxes, the Mills Act Contract requires the property owner to undertake specific rehabilitation/restoration tasks as necessary, and to properly maintain the historic structure.

Mills Act Contract terms are for a ten-year period, and are renewed automatically each year on the contract’s anniversary, unless the owner or City submits a notice of non-renewal. If such a notice is submitted, the contract would terminate at the end of the then current ten year term. Alternatively, the owner may petition the City to initiate an immediate cancellation, which would result in payment of a penalty equal to 12.5% of the property’s assessed current fair market value of the property, as determined by the County Assessor as though the property were free of the contractual restriction. The City may also cancel the contract in the case of breach of the contract conditions, whereby the property owner would be subject to pay the same 12.5% penalty. The obligations and property tax reduction benefits associated with the Mills Act Contract are also binding upon successive property owners during the contract term.

Santa Monica Mills Act Contracts

The City requires Mills Act Contract applicants to provide a report prepared by a qualified architect regarding the condition of the structure and the need to restore/rehabilitate in order to ensure the resource’s historic integrity and structural stability. Upon review, staff may identify additional restoration/rehabilitation and maintenance items as necessary. The recommendations in the architect’s report, particularly those that are critical to the building’s stability and historic integrity are typically reflected in the proposed 10-year restoration/rehabilitation plan, in addition to the required maintenance plan which becomes an attachment to the Mills Contract entered into between the City of Santa Monica and the property owner(s).

It is important to note that property owners will be required to obtain all applicable entitlements such as a Certificate of Appropriateness approved by the Landmarks Commission or Landmarks Commission Secretary, and all associated building permits for work prior to commencing activities proposed in the ten-year maintenance/rehabilitation plan. Furthermore, all work proposed in the ten-year restoration/maintenance plan must

Property owners are also required to submit a report to the City on a biennial basis to demonstrate compliance with Contract terms. City staff also may conduct site visits every other year to ensure that restoration and maintenance plans are implemented in accordance with Contract terms.

Financial data is also requested in order to calculate an estimate of the potential tax reduction and provide guidance to the Landmarks Commission and Council in making a decision on this request. The County Assessor is responsible for making the final determination of the taxes due when the approved Contract is submitted and recorded, and will continue to conduct property tax assessments on an annual basis. In many cases, property value assessments of properties with executed historic property preservation agreements are reduced when compared to their trended “Proposition 13” values. From these Mills Act Contract property value assessments, correspondingly lower taxes would be levied on these properties. Each year, the County Assessor will reassess taxes due for properties with Mills Act Contracts.

ANALYSIS

There are four new applications for consideration in 2018:

- 1659 Ocean Front Walk
- 133 Wadsworth Avenue
- 1305 2nd Street
- 1314 7th Street

Pursuant to SMMC 9.56.270(G), the City Council shall, by resolution approve a Mills Act contract with the owner of a qualified historical property, provided that:

1. The property has no confirmed and outstanding Code violations;
2. The property is not subject to a tax delinquency; and
3. All completed or ongoing work alterations, construction or rehabilitation to designated buildings located on the property conform to the Secretary of the Interior’s Standards for the treatment of Historic Properties.

The proposed Mills Act applications are consistent with these findings in that the subject properties do not have any outstanding Code violations and are not subject to tax delinquency. Furthermore, any proposed future alterations will be reviewed for consistency with the Secretary of the Interior’s Standards for the treatment of Historic Properties.
In addition to the specific restoration and repair obligations listed below for each property, each Mills Act Contract will include a standard requirement for ordinary maintenance and upkeep throughout the Contract’s term for work such as additional roof maintenance, and plumbing and electrical systems maintenance.

1659 Ocean Front Walk

A Mills Act Contract is proposed for the Purser Apartments that was constructed in 1913. The multi-unit residential building and parcel was designated a City Landmark on January 9, 2017 as one of the last remaining vestiges of historic development in the South Beach area and one of the last remaining apartment buildings that exemplified residential development along the Santa Monica beachfront from the early 20th century. The Purser Apartments was one of the most photographed buildings in the City and an established visual feature of the beachfront landscape, south of the Santa Monica Pier and the sole physical reminder of Santa Monica’s historic Muscle Beach.

As part of the Mills Act application, an architect’s report was prepared by Chattel, Inc. The report assesses the existing condition of the apartment building and identifies repair, restoration/rehabilitation and maintenance needs (Attachment A) along with a general schedule for completion of work.

As discussed more fully in Attachment A, the subject property generally appears to be in fair condition, however earlier features that have been inappropriately altered will be restored to their earlier appearance. The existing non-original aluminum windows are in poor condition and need to be replaced. Non-original features including lintels, sills, flower boxes, awnings, shutters, and exterior quoining finishes that are incompatible with the historic character of the building will be removed. Covered transom windows on the ground level will be rehabilitated and the rear entry door replaced. Building systems are described as being in poor condition. The work plan includes structural and drainage improvements to address water intrusion, repairs to the elevator to ensure operability, and improvements to mechanical, heating, and electrical.

The applicant has developed a 10-year rehabilitation/maintenance plan describing tasks that will be undertaken to address the identified concerns and ensure on-going maintenance that is expected to be realized through the projected tax savings. The identified maintenance tasks are estimated to have a total cost of approximately $80,000 with all identified rehabilitation tasks projected to cost $604,000 over the initial 10-year contract period.

133 Wadsworth Avenue

A Mills Act Contract is proposed for the single-unit Dutch Colonial Revival style residence constructed in 1903. The residence and parcel was designated a City Landmark on April 9, 2018 as a representative example of an early 20th century residence in the Ocean Park neighborhood exemplifying the early development in the area, and for its rare architectural
characteristics of the Dutch Colonial Revival style.

As part of the Mills Act application, an architect’s report was prepared by Kaplan Chen Kaplan. The report assesses the condition of the primary residence and identifies repair, restoration/rehabilitation and maintenance needs (Attachment B) along with a general schedule for completion of work.

As discussed more fully in Attachment B, the building is in good/fair condition. Rehabilitation improvements were completed in 2016 by the current owner including structural, electrical, and plumbing improvements. The applicant has identified a total cost of $264,500 for these completed rehabilitation improvements. Future work associated with the Mills Act contract include rehabilitation work however will primarily address issues related to building maintenance as described in the proposed Maintenance plan. The rehabilitation plan includes improvements to the existing roof and drainage systems, and repairs to the existing wood windows. Building systems are in good condition and will require regular annual maintenance.

The applicant has developed a 10-year rehabilitation/maintenance plan describing tasks that will be undertaken to address the identified concerns and ensure on-going maintenance that is expected to be realized through the projected tax savings. The proposed maintenance tasks over 10 years are estimated to have an annual cost of approximately $7,050 with all identified rehabilitation tasks projected to cost $77,000 over the initial 10-year contract period.

1305 2nd Street

A Mills Act Contract is proposed for the building commonly known as the Mar Vista Apartments constructed in 1914. The building and parcel was designated as a City Landmark on December 14, 2009 as an embodiment of the early residential history of the Central Business District and as an excellent example of an apartment building designed in the Renaissance Revival architectural style.

As part of the Mills Act application, an architect’s report was prepared by Chattel, Inc., The report assesses the condition of the building and identifies repair, restoration/rehabilitation and maintenance needs (Attachment C) along with a general schedule for completion of work.

As discussed more fully in Attachment C, the building is generally in fair condition. Proposed site improvements include new paving, landscaping, and installation of accessible ramps and lifts. The roof is in poor condition and will be replaced. Damaged portions of the metal cornice and decorative lionheads at the roofline will be reconstructed. The existing wood windows are in fair condition and will be rehabilitated and painted. The exterior brick finish is in fair condition and will be cleaned and repointed as needed. Building systems are described as good/fair condition and improvements to structural (seismic retrofit), mechanical, electrical, plumbing, and drainage are included...
in the work plan.

The applicant has developed a 3-year rehabilitation/restoration plan describing tasks that will be undertaken to address the identified concerns, in addition to a maintenance plan that is expected to be realized through the projected tax savings. The identified maintenance tasks over 10 years are estimated to have an annual cost of approximately $54,000 with all identified rehabilitation tasks projected to cost $4,672,000 over the initial 10-year contract period, anticipated to be completed within the first 3 years.

1314 7th Street

A Mills Act Contract is requested for the commercial building commonly known as the Associated Telephone Company Building constructed in 1937. The building and parcel was designated as a City Landmark on May 14, 2018 exemplifying elements of the City’s economic development and history related to the telephone industry and as a rare and prominent example of PWA Moderne architecture in Santa Monica.

As part of the Mills Act application, an architect’s report was prepared by Architectural Resources Group. The report assesses the condition of the commercial building and identifies repair, restoration/rehabilitation and maintenance needs (Attachment D) along with a general schedule for completion of work.

As discussed more fully in Attachment D, the building underwent an extensive rehabilitation between 2013 and 2015. The scope of work included seismic retrofit and rehabilitation of the building’s architectural features. The applicant has identified a total cost of $4,345,000 for these completed rehabilitation improvements. Based on these improvements, the building is currently in good condition. Future work associated with the Mills Act contract include rehabilitation work however will primarily address issues related to building maintenance as described in the proposed Maintenance plan. The proposed rehabilitation plan includes repairing the existing steel casement windows, repairing the finish of the existing travertine cladding within the designated entry lobby, repairing water leaks in the basement, and replacing the roof material. Building systems are in good condition and will require regular annual maintenance.

In addition to a Maintenance Plan, the applicant has developed a 10-year rehabilitation plan describing tasks that will be undertaken to address the identified concerns that are expected to be realized through the projected tax savings. The identified maintenance tasks over 10 years are estimated to have an annual cost of approximately $32,865 with all identified restoration/rehabilitation tasks projected to cost $304,184 over the initial 10-year contract period.

Of the Mills Act applications included in this report, the Associated Telephone Company Building is unique in that the property is subdivided into a commercial condominium-type ownership model consisting of a total 15 commercial condominiums with two owners; Divco West (9) and Frontier Communications (6). Therefore, the contract forwarded to
City Council will be with the property's governing 3-member Board that oversees decisions related to the property. This will ensure proper implementation of the rehabilitation and maintenance plan.

RECOMMENDATION

Staff’s recommendation is to move forward with a positive endorsement from the Landmarks Commission and recommend that the City Council enter into Historic Property Preservation Agreements (Mills Act Contracts) for each of the four described properties.

Attachments:

A. 1659 Ocean Avenue application materials
B. 133 Wadsworth Avenue application materials
C. 1305 2nd Street application materials
D. 1314 7th Street application materials