HISTORIC RESOURCE COMMISSION

MEETING MINUTES

Special Meeting June 23, 2009

The special meeting of the Coronado Historic Resource Commission was called to order at 6:06 p.m., Tuesday, June 23, 2009, at the Coronado City Hall Council Chambers, 1825 Strand Way, Coronado, California, by Chairperson O'Brien.

MEMBERS PRESENT:	Commissioners Crenshaw, Jones, O'Brien, Ryan, and St. Denis
MEMBERS ABSENT:	None
STAFF PRESENT:	Ann McCaull, Associate Planner Martha L Alvarez, Recording Secretary/Minutes Preparer

DIRECTOR'S REPORT

None.

ORAL COMMUNICATIONS AND OTHER MATTERS

There were no members of the public wishing to speak at this time.

PUBLIC HEARING

HRPA 8-08 City of Coronado: Mills Act Workshop: Proposed changes to the City's Historic Preservation Program. (no report)

The Commission gave a PowerPoint presentation about Coronado's Historic Preservation Program Proposed Mills Act Changes. The presentation covered the following topics:

1. Introductions
2. History of Program
3. Highlights of suggested changes to Program
4. Schedule
5. Questions and discussions
6. Closing.

Introductions

Chairperson O'Brien introduced the Commissioners, Community Development Director Rachel A. Hurst and Associate Planner Ann McCaull.

Mr. O'Brien thanked former Commissioners Susan Keith, Gerry MacCartee and Florence Draper

for attending today's meeting. In addition, Mr. O'Brien acknowledged that Councilmember Woiwode and Denny were present in the audience, as well as Lee Potter, Appraiser, County of San Diego.

History of Program

- Program was implemented in 2000
- Applies to residential properties
- Agreement requires preservation
- Property owner receives property tax reduction
- City and CDA receive 58% of property taxes paid
- Program participation increase
- 2004: Fiscal Cap ↑ to $10,000/yr
- 2004: Policy change: application process
- 2007: Fiscal cap ↑ to $15,000/yr
- 2007: Review of formula/methodology
- Fiscal cap established with Program
- Fiscal cap limits property tax revenue reductions
- $15,000 "Program Start" with $5,000 additional investment per year
- Applications processed by submittal date
- 2008: 33 recorded agreements
- 2008: 35 agreements waiting
- 2008: Cumulative foregone tax revenues: $507K
- 2008: Review of entire Program
- 2009: Restructure and improve the Program

Topics for Discussion at Today's Meeting

- The application process and how properties are prioritized for participation
- What properties are eligible to apply for a Mills Act
- Guidelines for alterations to Mills Act properties
- Fiscal cap of the Program
- Opportunities for reducing the waiting list

What is the Desired Outcome of the Proposed Changes to the Program?

- Maintain and improve participation in the City's Preservation Program
- Bring more certainty to the application process
- Establish eligibility standards for Mills Act properties
- Develop guidelines for alterations to Mills Act properties
- Reduce the backlog

How should Mills Act Applications be processed?

A. Process by submittal date
B. Process a maximum of 5 or 6 applications each year
C. Process based upon historical significance with new weight given to application date
D. Retain Mills Act exemptions for special circumstances

Commission recommends C & D

Eligibility Standards: Two Tiers to Preservation Program
Tier 1: Mills Act properties: Preserve, protect, maintain historic integrity in exchange for Mills Act benefits

Tier 2: "Save" Historic properties: Add, alter to adapt to today's lifestyle and receive possible zoning exceptions

What Properties are eligible to apply for a Mills Act Agreement

- Historically designated residential structures
- Proposed/previous changes to front façade may make a property ineligible
- Historic structure receives tax relief
- No tax reduction for non historic additions or accessory buildings

What types of Alterations are allowed for Mills Act Properties?
Rehabilitation:

- Preserve the front façade
- Preserve and retain original wall and siding materials
- Architectural features
- Avoid adding elements not part of the original building
- No vinyl

Windows and doors:

- Repair rather than replace
- Preserve size and shape
- Maintain historic window arrangement
- Do not add new window or door openings
- Aluminum clad are prohibited

Additions should be

- Subordinate in scale, bulk and mass
- Located at rear or side
- Compatible in character and style
- Designed to be reversible
- Designed to be discernable
- Compatible in materials

Fiscal Cap: The Current Situation

- 33 homes approved
- 35 homes on waiting list
- 18 year backlog (2027)
- 126 designed homes

- Mills act Program serious condition
- Fiscal cap has no relationship to a tax source
- Backlog impacts Historic Preservation efforts

Fiscal Cap of Program: How can the backlog be reduced?

A. Eliminate the fiscal cap to the program in year 1 (FY 2009-10)
B. Negotiate a rental value with the property owner that would provide a 50% reduction in property tax with the Mills Act agreement
C. Replace the fiscal cap with a New Formula that would be tied to residential property tax revenues received
D. Implement Option A in FY 2009-10 and Implement Option C beginning in FY 2010-11

Alternative A: No Fiscal Cap

- 35 homes on the waiting list
- Estimated property tax reduction if all properties approved in year 1 (FY 2009-10): $266K
- Estimated cumulative program investment since 2000 with Alternative $773K for FY 2009-10

Alternative B: Fiscal cap with 50% property tax reduction

- Mills act legislation mandates County Assessor methodology
- Rental value can be negotiated
- Establish policy to provide 50% reduction through negotiated rent
- All 35 homes on waiting list recorded by 2018
- Creates disparity in process and disincentive with 50% reduction

Alternative C: "Peg" Mills Act funding to a percentage of Mills Act agreements to Coronado residential property tax receipts

Coronado Numbers: Residential Properties

2008-2009 Residential property tax receipts: $13,600,000

Village residential parcels: 3,500
Total residential parcels: 7,300

Designated historic homes: 126
Mills act homes contracted: 33
Mills act homes waiting: 35
Total Mills Act homes: 68

2008 Assessed residential valuation: $5.0 Billion

Fiscal Cap Changes: Rationale
Coronado's historic element has a very positive influence on the "village" atmosphere.

The preservation of our history (along with the Hotel Del) creates a "Halo" effect of increasing the desire to buy and own Coronado properties.

The "Halo" effect pushes property tax receipts upward.

Establishing a "pegged" formula will give all parties (City Council, Historic Resource Commission, City staff, property owners, sellers and buyers) a rational and logical process.

Property Tax Receipts and Mills Act Funding

- Coronado residential property parcels = 7,300
- 2008-2009 residential property tax receipts = $13,600,000
- Residential property tax receipts increase = 8.25% Y/Y
- Mills Act contracts waiting and approved 68 of 7,300 = .01%
  (.01% x $13,600,000 = $143,400)
- Mills Act contract backlog 35 of 7,300 = .0048%
  (.0048% x $13,600,000 = $65,280)
- Mills act backlog = $266,000 (100%) = $133,000 (50%)

Alternative C: New Formula

2008-09	$13,600,000 x .0048 = $65,000 (35 – 8 + 5 = 32 left)
2009-10	$14,400,000 x .0030 = $62,000 (32 – 8 + 5 = 29 left)
2010-11	$15,000,000 x .0021 = $58,000 (29 – 7 + 5 = 27 left)
2011-12	$15,750,000 x .0016 = $58,000 (27 = 7 + 5 = 25 left)
2012-13	$16,500,000 x .0014 = $56,000 (25 – 7 + 5 = 23 left)

In 2012-13, all Mills Acts on existing waiting list will be approved

(8 + 8 + 7 + 7 + 7 = 37; 35 currently on waiting list)

Remaining would be new applications filed with the City

(Assumes Average parcel tax reduction of $7,500 and max 5 new/yr)

Alterative C Investment Compared to Existing 15,000 Cap Investment
Year 1 $65,000 - $15,000 = $50,000 income reduction

Year 2 $62,000 - $15,000 = $47,000 income reduction

Year 3 $58,000 - $15,000 = $43,000 income reduction

Year 4: $58,000 - $15,000 = $43,000 income reduction

Year 5: $56,000 - $15,000 = $41,000 income reduction

Year 6: $55,000 - $15,000 = $40,000 income reduction

Year 7: $51,000 - $15,000 = $36,000 income reduction

7 Year Total; $300,000 Additional Mills Investment (Income reduction)

(Assumes 5 new applications submitted each year)

Alternative B & C: Mills Backlog Forecast
2008-09 $13,600,000 x .0048 = $65,000 (35 – 18 + 5 = 22 left)

2009-10 $14,400,000 x .0030 = $43,000 (22 – 12 + 5 = 15 left)

2010-11 $15,000,000 x .0021 = $31,000 (15 – 8 + 5 = 12 left)

2011-12 $15,750,000 x .0016 = $25,000 (12 – 7 + 5 = 10 left)

2012-13 $16,500,000 x .0014 = $23,000 (10 – 6 + 5 = 9 left)

2013-14 $17,350,000 x .0012 = $20,000 (9 – 5 + 5 = 9 left)

2014-15 $18,270,000 x .0012 = $21,000 (9 – 6 + 5 = 8 left)

Assumes 50% value with average $3,450 tax reduction/parcel and max 5 new/yr)

Alternative B and C Investment Compared to Existing Cap Investment
Year 1 $65,000 - $15,000 = $50,000 income reduction

Year 2 $43,000 - $15,000 = $28,000 income reduction

Year 3 $31,000 - $15,000 = $16,000 income reduction

Year 4: $25,000 - $15,000 = $10,000 income reduction

Year 5: $23,000 - $15,000 = $8,000 income reduction

Year 6: $20,000 - $15,000 = $5,000 income reduction

Year 7: $21,000 - $15,000 = $6,000 income reduction

7 Year Total; $123,000 Additional Mills Investment

Fiscal Cap of the Program: How can the backlog be reduced?

Alternative D: Recommendation

- Implement Alternative A in FY 2009-10 only (Eliminate the fiscal cap)
- All Mills Acts agreements on waiting list approved 2009
- Implement Alternative C beginning in FY 2010-11 for all future years of the Mills Act Program

Alternatives with Mills Act Funding Forecast

Existing program: 15K cap @100% = 18 year wait/no new Mills allowed until 2027

Alternative A: release cap @100% = Allow all backlog to be in force = zero backlog

Alternative B: 15K cap @ 50% = 9 year wait/no new Mills allowed until 2018

Alternative C: "pegged" 100% = 4 year wait for existing / 5 new added* per year –new wait

Alternative B&C: "pegged" 50% = 7 years/5 new added* per year

Alternative D: release cap @100% "pegged" 100% future = Allow all backlog to be in force = zero backlog

*Historic Resource Commission assumes a maximum of 5 new Mills Act agreements per year

Fiscal Cap Concluding Remarks

- What is Mills "revenue" real money or "unrealized money"?
- Mills Act Program (and associated property tax reduction) is a "Halo" for Coronado's real estate valuation
- Unrealized future tax income revenue is different in comparison to current year cash outlay projects
- Mills Act Program = Community investment

What is the Schedule for the Changes?

- January 2009-June 2009: HRC formulates changes
- June 23, 2009: Community workshop
- July 2009: HRC adjusts draft changes
- August 27, 2009: City Council-HRC joint meeting
- September/October 2009: Ordinance changes prepared
- November/December 2009: Public hearings for final adoption

Draft Materials Available to Review

- Handout providing details of proposed changes
- Comment/suggestion form
- Provide input on alternatives
- Guide for participating in the City's Preservation Program

Questions and discussion followed the presentation.

A Mills Act Program handout summarizing the proposed Mills Act changes was made available

to the public. In addition, a Guide for Participating in the City's Historic Preservation Program was also made available at the meeting. This Guide contains the following information:

- Historic Preservation Program Overview
- Historic Resource Designation Process
- Historic Alteration Permit Process
- Historic Preservation Mills Act Agreement Process
- Guidelines for Properties with Mills Act Agreements
- Demolition of Structures 75 Years or Older.

A Comment Sheet was given to members of the public requesting asking for their comments on the following items:

1. Mills Act Agreement Process: How should Mills Act applications be processed?
2. Eligibility Requirements: Who is eligible to apply for Mills Act?
3. Alterations to Mills Act Properties: What types of alterations are allowed?
4. Guidelines for Alterations to Mills Act Properties
5. Fiscal Cap of the Mills Act Program: Should the fiscal investment the City has in the Mills Act be changed?

PUBLIC COMMENT

Susan Keith, 801 Tolita, said she understood that the Commission will be more lenient with an alterations request if a property owner has already designated his home historic. She also understands that the Mills Act Program will have stricter requirements. She asked about the alterations process if a property owner with a designated home chooses not to apply for Mills Act and whether the Preservation Program is leaning more towards protecting Mills Act homes.

Chairperson O'Brien said that the fiscal cap has forced the Commission to take a harder look at Mills Act homes. He stated that Mills Act will be held to a higher standard because the City is making a significant investment.

Commissioner St. Denis said that in the past, the City and the Commission have been very lenient with what is allowed to a Mill Act property in order that cottages and/or mansions are saved. The stricter Mills Act Program requirements are meant to clarify and "tighten up" what is allowed to a Mills Act home.

Florence Draper, 460 E Avenue, congratulated the Commission and staff for their efforts in preservation. She said that the Ordinance language states, "A property tax reduction can be obtained by the owner if the owner agrees to preserve and as necessary restore and rehabilitate." She noted that the language does not include anything about remodeling. Ms. Draper said she would like to see some emphasis given to small cottages that do not need remodeling or additions, but do need maintenance such as painting, roof repair, and so on.

Tom Coumes, 160 G Avenue, thanked the Commission and staff for a job well done. He asked if

City Council had given the Commission any direction, especially if it is being recommended that the City give up about four percent of their tax base.

Chairperson O'Brien replied that the Commission has not received a reading yet from City Council. However, the City Council does appreciate the fact that there is a significant backlog and has asked the Commission to provide options for a possible resolution.

Commissioner Ryan replied to Mr. Coumes question about the four percent tax base. Mr. Ryan said that the presentation involves only residential property tax receipts and does not include commercial property.

Courtney McCowan, 1140 Alameda Boulevard, asked about the 126 historically designated homes that may at some time in the future request for Mills Act designation. She asked if the Commission has done any type of survey to identify any properties that have not yet been designated historic and may possibly be future Mills Act recipients.

Ms. McCaull stated that per City Council direction, the Commission formulated a list to be used for the Demolition Permit Review process. The homes on the list were not necessarily Mills Act eligible; they were homes that the Commission wanted to review before they were demolished. The list contained approximately 450 homes. When the Mills Act Program was established, it was estimated that about 250 homes might be eligible or qualify for Mills Act.

Nancye Splinter, 1027 G Avenue, said she supports funding the Mills Act homes by date of application and believes that the City can afford the Mills Act Program. In addition, she read an except from an article written in 2008, by Andrew J. Narwold, Professor of Economics, Schools of Business Administration, University of San Diego. The article states: "Historical preservationists have long argued that programs that protect historically significant houses create a positive externality for the houses in the surrounding neighborhood. California's Mills Act presents a unique opportunity for the measurement of this externality. Previous research has shown that the value of this tax benefit to the homeowner is very significant, increasing property values by 16%. However, this program costs the local government in terms of lost property tax revenue. The results presented in this paper suggest that the loss in property tax revenue is more than compensated for by a general increase in the property value of other houses in the neighborhood. The value associated with the proximity of a historically significant house in the neighborhood varies with distance. For distances up to 250 feet, a historical house adds 2.7% to a house's value with this amount decreasing to 1.6% for distances of 250 to 500 feet. So it can be shown that this loss in property tax revenue should be more than offset by an increase in the value of these surrounding properties. This evaluation uses historic homes in San Diego with a median house value of $800,000 using a Log-linear estimation result"

Bruce Coons, Executive Director, Save Our Heritage Organization (SOHO), commended the Commission and staff for their recommendation. He stated that not having the ability to have the Mills Act has been an issue in selling historic houses in Coronado as it makes it non competitive with other communities.

Karen Moore, 520 B Avenue, congratulated the Commission and former Commissioners for their hard work. She said she supports prioritizing Mills Act applications by date of submittal and feels that removing the fiscal cap is essential.

Susan Heavilin, 1144 Isabella, said the Commission and staff has done a fantastic job. She said it was her understanding that the Mills Act Program was created for property owners who could get relief from property taxes in order to invest the funds into their historic home. She added that she would like the fiscal cap removed and suggested that language be included in the Ordinance in order to protect the gardens surrounding the large historic homes.

The meeting concluded with applause from the audience.

ADJOURNMENT

There being no further business, the meeting was adjourned at 7:10 p.m.

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Rachel A. Hurst, Director of Community Development,
Redevelopment & Housing Services