



AGENDA REPORT SUMMARY

Meeting Date: November 28, 2023

Subject HPA23-0001 – 41 Hawthorne Avenue

Prepared by: Sean Gallegos, Senior Planner

Reviewed by: Nick Zornes, Development Services Director

Approved by: Gabriel Engeland, City Manager

Attachment(s):

1. Draft Resolution
2. Historic Evaluation and Secretary of the Interior Standards for the Treatment of Historic Properties Review
3. Mills Act Application Recommendation Letter
4. Historian Support Letter for Ten-Year Work Plan
5. Historic Preservation Agreement
6. [Historical Commission Agenda and Attachments, September 25, 2023](#)

Initiated by:

Sreenivas and Isabel Tallam, property owners of 41 Hawthorne Avenue

Previous Council Consideration:

None

Fiscal Impact:

The fiscal impact cannot be established since the assessed value will undergo reevaluation by the Santa Clara County Assessor's Office following Council's approval of the Historic Preservation agreement contract. It is anticipated that upon entering into the Historic Preservation agreement contract with the City, there could be an annual reduction in property tax revenue for the subject property ranging from 40 percent to 60 percent. Using the property's most recent tax assessment in 2022 of \$22,020, the reduction after reassessment is estimated to range between \$8,808 - \$13,212 per year. The City receives .029% to .045% of property taxes from the subject site and would therefore see an estimated \$8,808 - \$13,212 reduction in property tax revenue from this property.

Environmental Review:

The approval of a Historic Preservation agreement is Categorically Exempt from environmental review pursuant to Section 15331 (Class 31) of California Environmental Quality Act (CEQA) because Class 31 projects consist of projects limited to the maintenance, repair, stabilization, rehabilitation, restoration, preservation, conservation or reconstruction of historical resources in a manner consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties with Guidelines for Preserving, Rehabilitating, Restoring, and Reconstructing Historic Buildings.



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Summary:

- The owners of 41 Hawthorne Avenue, a Historic Resource, are seeking to execute a historic preservation agreement with the City for the historical rehabilitation project to allow for a property tax reduction under the Mills Act.
- The Mills Act allows cities to enter into contracts with property owners of historic structures for a reduction of property taxes in exchange for the continued preservation of the historic resource.

Background

A property owner may enter into a Historic Preservation agreement with the City, which allows them to benefit from a reduced property tax rate assessed by the County Assessor. In exchange for this tax incentive, property owners commit to maintaining, preserving, restoring, and rehabilitating their historic property or structure. The County Assessor determines the value of historic properties using the capitalization of income method, which is based on either actual rents or market-based projected rents. This method adheres to Section 439 of the California Revenue and Taxation Code, where assessed property values are derived from fair rent values. The fair rent income, after deducting certain expenses, is then divided by a capitalization rate to determine the property's assessed value. The City of Los Altos currently has Historic Preservation Agreements in place with 15 designated Historic Landmark and Historic Resource properties.

On July 26, 2023, the Planning Division received an application (HPA23-0001) from the property owners for a historical preservation agreement permit (HPA) for the Historic Resource located at 41 Hawthorne Avenue. If approved by the Council, this Mills Act application will enable a property tax reduction aimed at providing essential support to the owners for the rehabilitation and preservation efforts directed towards this historical resource.

The 1926 house is associated with the Tudor Revival architecture style, popular throughout the U.S. from 1890 to 1940. The 1926 house demonstrates the essential elements of the Tudor Revival style with many character-defining features associated with the style, including the steeply pitched and sloping multi-gable roofs, the exposed half-timber elements, the two “three-centered” arches along the front porch, the in-kind replacement picture windows with central square, fixed single-light windows between three-over-one with mullions, original double-hung wood windows within lugs, stucco walls, and the asymmetrical floorplan. The 1926 house is a good example of Tudor Revival architecture from 1926.

As outlined in the Historic Resource Evaluation and Secretary of the Interior Standards for the Treatment of Historic Properties Review prepared by Stacey De Shazo with Evans & De Shazo, Inc. (Attachment B, respectively), the Historic Evaluation Report assessed the existing historic resource and a proposed future rehabilitation project. The report by the project historian made the following determinations:



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1. The California Register of Historic Places and the Los Altos Historic Preservation Ordinance established that a resource 50 years of age or older may qualify for listing in CRHP or the Los Altos Historic Resource Inventory. The 1926 house meets this threshold.
2. The 1926 house is historically significant and appears individually eligible for listing in the CRHPs under Criterion 3 for its association with Tudor Revival architecture and under Criterion C3 under Section 12.44.040 of the Historic Preservation Ordinance.
3. The existing historic resource with its Tudor Revival architectural style retains all seven aspects of integrity; and therefore, the existing house is a qualified historic property under CRHP and the Los Altos Historic Preservation Ordinance and eligible for the Mills Act.
4. Furthermore, it found that the future proposed rehabilitation project meets the Secretary of Interior Standards for Rehabilitation. Therefore, the proposed rehabilitation will not impact the integrity of the historic resource and still make the house eligible for the Mills Act.

To provide additional clarity, the future project involves the construction of two new ancillary structures: a detached garage and an accessory dwelling unit (ADU), both to be located at the rear of the 1926 house. It's important to note that the Council is not currently evaluating the future rehabilitation project, as it will be a separate proposal submitted by the applicant at a later date. Nevertheless, the applicant has proactively included a review based on the Secretary of the Interior Standards for the Treatment of Historic Properties within the Historic Resource Report, in preparation for this future development.

On September 24, 2023, the Historical Commission held public discussions to consider the Mills Act application. The Commission discussed the merits of the request from the property owners, and acknowledged the Historic Resource Evaluation Report prepared by the consulting historian. Following the discussion, the Commission voted unanimously to approve the rehabilitation project and recommend that the City Council authorize the City Manager to execute a Historic Preservation agreement with the property owners at 41 Hawthorne Avenue. The Historical Commission agenda report and attachments are provided as attachment 5.

Discussion/Analysis

The execution of a Historic Preservation Agreement with the City will make the historic resource eligible for a property tax reduction in accordance with the Mills Act. If the Mills Act request for the subject site is approved by the Council, it is estimated that the City would experience an annual property tax revenue reduction ranging from 40 percent to 60 percent. However, it's important to acknowledge that the exact fiscal impact remains uncertain, as the assessed value will be reevaluated by the Santa Clara County Assessor's Office following the City Council's approval of the Mills Act. Consequently, our staff is unable to determine the precise fiscal impact on the City at this time. For reference, in Fiscal Year 2022-2023, the City generated approximately \$29,568,955 in property tax revenue.



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A standard term for a Historic Preservation Agreement spans a ten-year duration, with an automatic annual renewal clause thereafter. However, it's important to note that both the City and the property owner retain the right to revoke the agreement if they so choose at a later date. Furthermore, the agreement mandates that any property tax savings realized must be reinvested into activities related to the maintenance, preservation, restoration, and enhancement of the historic structure, as stipulated by the Historical Commission's requirement for a Schedule of Improvements, which demonstrates the intended use of funds for ongoing efforts to uphold the historical integrity of the structure and the surrounding property. You can find this Schedule of Improvements as Exhibit B in the Draft Historic Preservation Agreement provided in Attachment 5.

Recommendation

Adopt a Resolution authorizing the City Manager to execute a Historic Preservation agreement with property owners of 41 Hawthorne Avenue.