



Date: October 11, 2018

To: Patrick H. West, City Manager *T.H.W.*

From: John Keisler, Economic Development Director *JK*

For: Mayor and Members of the City Council

Subject: Opportunity Zones Program Update

In December 2017, the Federal Tax Cuts and Jobs Act established "Opportunity Zones" to encourage investment in low-income communities through Qualified Opportunity Funds. As described by the Internal Revenue Service (IRS), "an Opportunity Zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment." The purpose of this memorandum is to provide an overview of this new program, and to identify ways in which the City may leverage its Opportunity Zones to increase economic development.

Background

On April 9, 2018, the Treasury Department certified all Opportunity Zones for a period of ten years. To establish Opportunity Zones, governors from each state submitted lists of census tracts that satisfied the federal definition of a "Low-Income Community," or were contiguous with a Qualified Opportunity Zone and did not exceed 125 percent of the median family income of the qualified tract. Nationwide, more than 8,700 census tracts were approved by the Federal Government as Opportunity Zones. The State of California has 879 approved Opportunity Zones, including 19 approved census tracts encompassing 2,300 acres across Long Beach (see attached).

By providing tax benefits to investors, the Federal Opportunity Zone Program (Program) was designed to significantly increase jobs and accelerate investment in low-income areas. To access the tax benefits associated with the Program, individuals must invest through qualified "Opportunity Funds" that purchase and improve real estate or businesses within qualified Opportunity Zones. Benefits for investing in qualified Opportunity Funds may include reduction, deferment, or forgiveness of capital gain taxes, depending on the length of the investment. For instance, if the investment is held for five years, the tax basis in the original investment is increased by 10 percent; after seven years, the tax basis is increased by 15 percent; and, after ten years, investors may permanently avoid any capital gains taxes on the investment. Qualified investments may include property, stock, partnership interests, and business property. Golf courses, country clubs, and businesses that sell alcohol for off-site consumption are prohibited under the Program.

Another exciting provision of the Program is that Opportunity Funds may be paired with other federal and state programs, such as New Market Tax Credits, Historic Rehabilitation Tax Credits, Infrastructure Tax Credits, Low Income Housing Tax Credits, and Renewable Energy Investment and Production Tax Credits. The Program may help spur development of projects that may have not otherwise been financially feasible, including affordable housing development. Investors may also partner with governmental agencies for Public Private Partnerships (P3).

One significant drawback of the Program is the strict deadlines established for the entitlement and construction of real estate projects. Consequently, cities, like Long Beach, that have adopted streamlined development planning areas, such as the Downtown and Midtown Specific Plans, will be uniquely positioned to capitalize on the Program due to the reduced time for review under the California Environmental Quality Act.

Next Steps

Recently, the IRS announced it will release more specific guidelines pertaining to Opportunity Funds in the coming weeks. Additionally, the State announced it is evaluating if it will adopt additional guidelines for California Opportunity Zones following the IRS release. In addition to monitoring federal and state guidelines, staff is taking the following actions to help Opportunity Fund investors meet the strict deadlines for eligible investments:

- Conducting outreach to Opportunity Fund managers to learn about their priorities and introduce them to opportunities for investment in Long Beach;
- Developing a list of businesses and shovel-ready real estate development projects in Long Beach to market and promote to Opportunity Fund managers;
- Hiring a FUSE Corp Fellow in the Economic Development Department to develop relationships with Opportunity Fund managers;
- Marketing and promoting the Program to investors via online, social media, professional associations, real estate brokers, earned media, and trade shows;
- Promoting the City's specific plans including the Downtown and Midtown Specific Plans that streamline entitlements for projects; and,
- Identifying other "business-friendly" incentives for City Council consideration to attract investment in businesses located in the Long Beach Opportunity Zones.

Over the next few months, staff will provide City Council with regular updates about how the City can leverage the Program. For more information, please contact Economic Development Director John Keisler at (562) 570-5282 or via email at john.keisler@longbeach.gov.

Attachment

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CITY OF LONG BEACH OPPORTUNITY ZONES

