

ECONOMIC DEVELOPMENT COMMITTEE REPORT and RESOLUTION relative to proposed Opportunity Zones in the City of Los Angeles.

Recommendations for Council action, as initiated by Motion (Buscaino - Price):

1. ADOPT, with the concurrence of the Mayor, the accompanying RESOLUTION to include in the City's 2017-18 State Legislative Program, SUPPORT for the inclusion of the list (Attachment 2 to the February 26, 2018 Chief Legislative Analyst (CLA) report, attached to the Council file), as amended, of low-income Los Angeles Census Tracts for the Opportunity Zone Program, attached to the Resolution and the Council file.
2. INSTRUCT the Chief Legislative Analyst (CLA) to evaluate the new Federal Opportunity Zones and report with recommendations on how to establish zones in the City of Los Angeles with consideration of the Promise Zones, Clean Up Green Zones, and the Transformative Climate Communities where possible.
3. AMEND the list of Los Angeles Census Tracts as detailed in Attachment 2 of the February 26, 2018 CLA report, attached to the Council file and the Resolution, to:
 - a. Delete Census Tract No. 06037980014
 - b. Add Census Tract No. 06037297110

Fiscal Impact Statement: The CLA reports that there is no General Fund impact at this time.

Community Impact Statement: None submitted.

Summary:

On February 13, 2018, your Committee considered a February 12, 2018 CLA report in response to Motion (Buscaino - Price) relative to proposed Opportunity Zones in the City of Los Angeles. According to the CLA, Opportunity Zones were established as part of the Tax Cuts and Jobs Act of 2017 (Act) to promote economic development in low-income urban and rural communities nationwide. Under the Act, Governors or chief executive officers of States, Washington DC, and United States possessions must nominate areas within their jurisdictions to be Opportunity Zones within 90 days from December 22, 2017. They may designate up to 25 percent of the total number of eligible low-income census tracts in a State as Opportunity Zones. The deadline to submit the list of eligible tracts to the Secretary of Treasury is March 21, 2018. The Opportunity Zones program provides a tax incentive for individuals and corporations to re-invest their unrealized capital gains into Opportunity Funds that are dedicated to investing in designated Opportunity Zone population census tracts. Opportunity Funds are created by investors such as banks or hedge funds to generate either new businesses in those areas, expansions of existing ones, or real estate development.

The Opportunity Zones program offers three tax incentives for investing in low-income communities through a qualified Opportunity Fund:

- a. Temporary Deferral, which is a temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.
- b. Step-Up In Basis refers to a capital gains investment basis increases by 10 percent if the investment in the Opportunity Fund is held by the taxpayer for at least five years and by an additional five percent if held for at least seven years.
- c. Permanent Exclusion from taxable capital gains income from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least ten years. The Permanent Exclusion only applies to gains after an investment in an Opportunity Fund.

The Governor must submit a list of the Opportunity Zone tracts to the Secretary of the Treasury prior to March 21, 2017 in order for these areas to receive tax benefits. Since the Governor may only select 25 percent of the Census tracts eligible in the State, additional criteria may be relevant in making a selection. The City has over 500 Census tracts that are eligible to be included in the Opportunity Zone program. In order to better serve the residents in designated low income communities, the City should submit a detailed proposal to the Governor prior to the above mentioned deadline. Furthermore, tracts with the highest potential for job creation should be prioritized to maximize the benefit of the Opportunity Zone program. Finally, a map illustrating the Opportunity Zone eligible tracts throughout the City along with Promise Zones, Clean Up Green Up Community Zones, and Transformative Climate Communities is included with the February 12, 2018 CLA report.

After consideration and having provided an opportunity for public comment, the Committee moved to continue this matter pending a response from the Committee instructing the CLA to:

- a. Review eligible Opportunity Zones in each Council district to determine a final map that will be transmitted to the Governor.
- b. Prepare a final map and Resolution to be submitted to the Governor regarding Opportunity Zones.


Subsequently, on February 27, 2018, the Committee further considered this matter to include a February 26, 2018 CLA report addressing the Committee's instructions issued on February 13, 2018. According to the CLA, there are a total of 169 tracts listed in the February 26, 2018 CLA report for the Governor to examine prior to designating Opportunity Zone census tracts in the City of Los Angeles. Of these 169, there are 125 the City has determined to be "Primary" tracts that the CLA believes that contain the highest potential to create jobs and spur economic growth along with 44 "Secondary" tracts the City has labeled that may fill those same purposes. Also included in this report is a color-coded map with both the Primary and Secondary census tracts labeled to illustrate where the intended economic output and commercial activity will take place. This report recommends that the City submit a total of 169 tracts to the Governor for Opportunity Zone designation. In addition, a Resolution is attached for Council approval.

After consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the recommendations contained in the Motion and the

February 26, 2018 CLA report and detailed above in Recommendation Nos. 1 and 2. Additionally, the Committee recommended the replacement of one Census tract with another as detailed above in Recommendation No. 3. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

ECONOMIC DEVELOPMENT COMMITTEE

A handwritten signature in black ink, appearing to be 'A. Price', written in a cursive style.

MEMBER VOTE

PRICE: YES

BUSCAINO: YES

HUIZAR: ABSENT

ARL

2/27/18

-NOT OFFICIAL UNTIL COUNCIL ACTS-