

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: February 12, 2018

TO: Honorable Members of the Economic Development Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No: 18-0112
Assignment No: 18-02-0110

SUBJECT: Federal Opportunity Zones in Los Angeles

SUMMARY

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 D.C., 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.

Motion (Buscaino-Price, Jr., CF# 18-0112) introduced February 6, 2018, seeks to identify Opportunity Zone-eligible census tracts in the City that would be recommended to the Governor for designation. The Motion instructs our Office to analyze and determine eligible Promise Zones, Clean Up Green Zones, and Transformative Climate Communities to maximize the impact of these economic development programs.

Below is an overview of the Opportunity Zone program along with a description of future steps.

BACKGROUND

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

- (1) 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;
- (2) 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; and
- (3) 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 10 years. The Permanent Exclusion only applies to gains after an investment in an Opportunity Fund.

According to United States Code section 45D(e), a “low-income community” is defined as any of the following three: (1) a population census tract whose poverty rate is at least 20 percent; (2) a tract not located within a metropolitan area where the median family income for such tract does not exceed 80 percent of statewide median family income; or (3) a tract located within a metropolitan area where the median family income for such tract does not exceed 80 percent of the greater statewide median family income or the metropolitan area median family income.

All of the underlying incentives relate to the tax treatment of capital gains, and all are tied to the longevity of an investor’s stake in a qualified Opportunity Fund. This provides the highest return to those who hold onto their investment for 10 years or more.

DISCUSSION

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.

Our Office has attached a map that illustrates the Opportunity Zone eligible tracts throughout the City along with Promise Zones, Clean Up Green Up Community Zones, and Transformative Climate Communities.

RECOMMENDATION

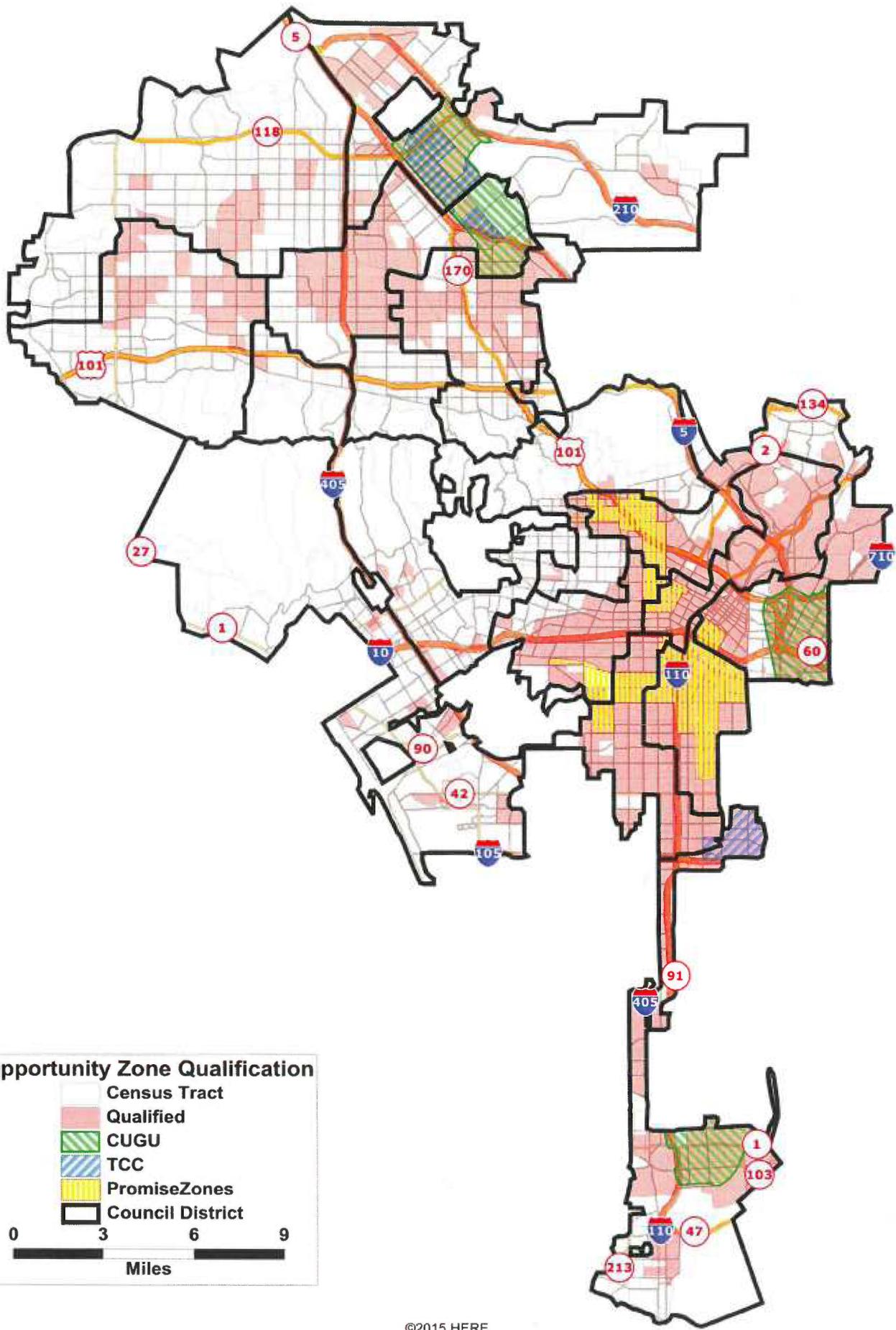
That the Council instruct the Chief Legislative Analyst (CLA) to:

- a. Review eligible Opportunity Zone Census tracts in each Council district to determine a final map that will be sent to the Governor of California; and
- b. Prepare a final map and Resolution to be submitted to the Governor.



Henry Flatt
Analyst

- Attachments: 1. Map of Opportunity Zone eligible census tracts
2. Motion (Buscaino-Price, Jr.)



ECONOMIC DEVELOPMENT

MOTION

The passage of H.R. 1, the Tax Cuts and Jobs Act, included within it Sec. 13823. This provision allows Governors to designate up to 25 percent of the total number of low-income census tracts in a state as Opportunity Zones. These Opportunity Zones would be eligible to receive Opportunity Funds, which are private sector investments of which at least 90 percent of capital is invested in Opportunity Zones.

Governor Brown has until March 22, 2018 to submit nominations to the Department of the Treasury to designate areas in the State of California that qualify as Opportunity Zones. The Department of the Treasury will then have 30 days from the date of nomination to certify and designate the area as an Opportunity Zone.

The City should identify areas in Los Angeles that qualify for this benefit, and take advantage of other zones, such as Promise Zones, Clean Up Green Zones, and Transformative Climate Communities. These zone designations give the City a unique opportunity to leverage economic development in areas where such assistance is most needed.

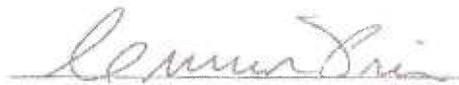
I THEREFORE MOVE that the City Council instruct the Chief Legislative Analyst to evaluate the new Federal Opportunity Zones and report to Council with recommendations on how to establish zones in the City, with consideration of the Promise Zones, the Clean Up Green Zones, and the Transformative Climate Communities where possible.

PRESENTED BY:



JOE BUSCAINO
Councilmember, 15th District

SECONDED BY:



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