



Legislation Details (With Text)

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Title: SUBJECT: Report to the City Council on Economic Opportunity Zones

REPORT IN BRIEF
Presentation to the City Council on the Opportunity Zone program created by the 2017 Federal Tax Cuts and Jobs Act.

RECOMMENDATION
Information-Only.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Opportunity Zone Flyer, 2. Opportunity Zone Overview.pdf

Date	Ver.	Action By	Action	Result
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SUBJECT: Report to the City Council on Economic Opportunity Zones

REPORT IN BRIEF

Presentation to the City Council on the Opportunity Zone program created by the 2017 Federal Tax Cuts and Jobs Act.

RECOMMENDATION

Information-Only.

DISCUSSION

Opportunity Zones (OZs) are a new investment tool created by the 2017 Federal Tax Cuts and Jobs Act to stimulate investment and economic development in low-income communities. The program offers capital gains tax benefits in exchange for making investments in Opportunity Zones that can spur business and economic growth.

Selecting Qualified Census Tracts

In March 2018, the State of California released its list of Qualified Census Tracts for comment by local jurisdictions. In June 2018, the U.S. Treasury Department evaluated and designated over 8,700 low income census tracts in U.S. States and Territories as Opportunity Zones for a 10 year period, until 2026. Within the State of California, there are 879 such zones. The Merced City Opportunity

Zone is composed of 7 qualified census tracts totaling 6,680 acres (ATTACHMENT 1). Portions of the census tracts are located within Merced County.

To be eligible for nomination, census tracts had to have poverty rates of 20% or higher, or median family incomes below 80% of statewide or metro area median family incomes. Each State or U.S. Territory could nominate up to 25% of their eligible census tracts, and up to 5% of those nominated census tracts could be in areas that were contiguous with low-income community census tracts.

The OZ Benefits

The key benefits of an Opportunity Zone designation are businesses and projects in the zone are eligible for investments from a new source of funding called Qualified Opportunity Funds, and investors are eligible for new tax benefits in exchange for investing in such funds.

Investments made by individuals through Qualified Opportunity Funds in designated Opportunity Zones would be allowed to defer or eliminate Federal taxes on capital gains. Investors can get the tax benefits, even if they don't live, work or have a business in an Opportunity Zone. To qualify for tax deferrals investors must invest the amount of the capital gain to be deferred in Qualified Opportunity Funds that are required to invest 90% of their funds in Opportunity Zones, and to verify this semi-annually. The longer the investment term the greater the tax benefit. For example, a 10 year investment term can eliminate a capital gains tax.

For Locals

This new Opportunity Zone may be of interest to those within the zone interested in soliciting funding from a new incentivized, targeted source of investors; or those considering investing in new business ventures, property or new or expanding businesses needing funding support.

Getting OZ Ready

The OZ program is designed to be place-based and responsive to the unique needs and opportunities of different communities. Qualified Opportunity Funds can invest in a wide variety of assets, from the stocks of new companies to real estate, infrastructure, affordable housing and more.

Opportunity Zones are not a traditional development incentive, but are designed to influence investor behavior, rather than that of individual companies. The purpose of the OZs is to draw capital that would otherwise bypass distressed communities. Upfront tax-credits and subsidies are not part of the OZ program, but for the investor, a graduated tax shelter tied to long-term holdings and patient capital.

The City of Merced values receiving this Opportunity Zone designation and targeted investments that may provide benefit to the community. Opportunity Zone communities have less of a project-by-project, transactional role to play here. Localities remain responsible for education, training, and workforce development, zoning, and supportive business climate to help the OZ program meet its potential.

The City's role is to share information about the Merced City Opportunity Zone and does not have specific interests at stake or a controlling role. The Opportunity Zone Program is under the umbrella of the Internal Revenue Service (IRS). Investments are not administered or overseen by the City of

Merced.

ATTACHMENTS

1. Merced City Opportunity Zone
2. Presentation