Maximizing the Use of Opportunity Zones
Summary of Discussion
May 14, 2018

SUMMARY
California Forward and the Parker Foundation co-hosted a conversation on May 14 about how California can maximize the use of the Opportunity Zones to direct private capital investment into low-income communities across the state. The central issue for the convening was how state and local agencies can organize to attract private equity capital—and how they can maximize the social impact of these investments to reduce poverty, create more living wage jobs, produce affordably-priced housing, and provide an overall benefit to low-income communities.

BACKGROUND
The Opportunity Zones program is designed to incentivize private capital investments in improving the economic conditions of designated census tracts struggling with high poverty rates and limited economic activity. By providing tax benefits to investors, the program seeks to pool private resources in new Opportunity Funds that can invest in local projects aimed at elevating living standards in distressed communities. 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 community that has a designated Opportunity Zone. With minor exceptions, the federal statute is not prescriptive as to the use of funds other than they must be in a new asset investment. CA Fwd and the Parker Foundation are committed to ensuring California's Opportunity Funds aim to produce triple bottom line results: expanding local economic development in environmentally sustainable ways, while also improving upward mobility for Opportunity Zone residents.

PARTICIPANTS
Participants in the May 14 meeting included private equity investors, local economic development and housing officials (including representatives of the cities of Fresno, Oakland, San Jose and Santa Rosa, as well as the county of Sonoma), representatives of the Governor Brown administration (Governor's Office, Strategic Growth Council, the California Housing Finance Agency and the Department of Housing and Community Development), and the philanthropic community.

MAJOR TAKEAWAYS
The discussion centered on three topics, which are outlined below. The group also identified a set of next steps in the short- and long-term. Those action items can be found on the next page.

1. <u>Perspective of private equity investors</u>

   Investors at the event emphasized that private equity investments are usually based on risk, time, and outcome—not necessarily tax implications. They believe it remains to be seen how much the new federal statute will change investor behavior. The state's treatment of capital gains taxes are also unknown—potentially complicating investor decisions, especially as they weigh investments in other states that don't tax income or that choose to conform their capital gains tax systems with federal law. Although the rules under which the investment funds will operate have not been finalized by the US Treasury, there is a general view from the investment community on what they expect from state and local governments to facilitate investment in new Opportunity Zones:
   - The local agency's economic development plan should be ready for the investment.
   - Investors will need clarity that the final project(s) determination by local authority is final and the risk of delay and challenge is low.
   - Some form of state conformity to the federal tax provisions will need to be adopted—or at, the very least, the state will need to make it clear that its tax policies are not subject to further determination.

2. Perspective of state government

   The Brown Administration has established a workgroup of 6-7 state agencies that are focusing on the state interest in attracting private capital to communities, particularly housing. The Administration has expressed interest in initiating “pilot” Opportunity Zones that could benefit from state resources. In the May convening, the group discussed several ideas for strengthening the state’s ability to attract private capital, including creating a state Opportunity Zone office that would coordinate state agency interests—and focus new investments on communities and projects meeting state goals. Another idea discussed was to broaden the role of this office to include a range of potential leveraging opportunities for community development, through a range of new tools, including Opportunity Zones, tax credits, EIFDs, CRIAs, NIFTIs, and new housing sustainability districts.

3. Perspective of local community development

   The five local agencies that participated identified a range of economic development opportunities in their communities that might benefit from Opportunity Zone investment. Each identified how integrated economic development models will be needed tailored to local and regional needs. Those integrated issues include growing the local economy through workforce opportunity and housing.

NEXT STEPS

1. State policy framework: CA Fwd, in partnership with other members of the group, could continue to engage experts and advocates to analyze and understand the potential impacts of OZs in California—and to develop proposals for state policy to increase the potential for social impact. An effort like this would require quantitative analysis regarding the impact on state and local revenues, as well as alignment with existing investments and tax expenditures. Proposals could be tracked through the 2018 CA Economic Summit in November, where participants could review, comment on, and potentially support proposals for consideration in the 2019-20 legislative cycle.

2. State implementation activities: The Administration described an inter-agency approach to technical assistance that could be critical to the success of California’s early adopters—and could also model a more pragmatic way for the state to engage with communities and regions on development plans that require approval or investments from multiple state agencies. CA Fwd and other participants could partner with the state to help them develop, evaluate and refine that model to support the development of OZs and to assess how that model could be broadened to align public agencies on projects with significant potential to improve economic opportunities.

3. Early adopters: Even the early adopters are on a steep learning curve. CA Fwd could work with partners to identify those early projects, convene and share ideas among them, and distribute that information statewide to increase understanding and connect community level leaders. The early projects will provide an opportunity for analyzing potential economic, environmental and equity impacts and could also help inform state policy requirements.

TIMELINE

Short-term (June - August)

- Develop state policy framework for analyzing and understanding the potential impact of OZs.
- Engage with state inter-agency workgroup to clear pathways for integrating state investment.
- Identify early adopters as potential pilots (joint state and local community projects); recommend a source of “pre-development funding” for local agencies.

Mid-term (August - Nov)

- Host workgroup meetings and prepare a presentation of progress and recommendations at the 2018 California Economic Summit in November.
- Draft legislation ahead of the 2019-20 legislative session to accelerate Opportunity Zone investments through selective federal tax conformity and to provide regulatory streamlining that meets state and local policy objectives, while providing certainty for private investment.

Long-term (Beginning 2019)

- Work with the Legislature and new Administration to enact this legislation, based in part on the experience of pioneering “pilot” projects.