



TO: Elizabeth Pauli, City Manager
FROM: Jeff Robinson, Director, Community & Economic Development Department
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SUBJECT: Tacoma Opportunity Zones
DATE: April 11, 2019

PRESENTATION TYPE:

Informational briefing.

SUMMARY:

Opportunity Zones were established by Congress as part of the Tax Cuts and Jobs Act on December 22, 2017 (Section 1400Z-2 of the Internal Revenue Code). The program is designed to encourage long-term investment and job creation in distressed communities designated as “qualified opportunity zones.” It intends to achieve this goal by providing Federal capital gains tax benefits to invest in “qualified opportunity funds” that invest equity directly in commercial real estate projects and/or businesses within the zones. There are a total of approximately 8,700 Opportunity Zones in urban and rural communities throughout the U.S. The Federal government certified six Opportunity Zones in Tacoma (see attached map). Information will be presented about the benefits of participating in the program from investor, property/business owner and community perspectives, current status of the draft regulations and actions CEDD has taken to attract investment through the Opportunity Zone Program.

BACKGROUND:

In 2017, U.S. taxpayers paid taxes on \$6.1 trillion of capital gains nationwide. In 2019, the capital gains tax rates are zero, 15% and 20% depending on income if the asset is held for at least one year. The Opportunity Zone Program enables investors to *defer* capital gains taxes until 2026, *reduce* taxes of up to 15% and *eliminate* taxes on the capital appreciation of property provided certain requirements are satisfied. Investors can yield significant benefits from the tax savings in addition to the project’s return on investment. Property and business owners can obtain essential equity to fill financing gaps to enable projects. Communities can realize revitalization, increased tax revenue and employment growth that meet their long-term needs.

In mid-October 2018, the Federal Treasury Department released draft regulations on the Opportunity Zone legislation, which may be accessed at <https://www.irs.gov/newsroom/treasury-irs-issue-proposed-regulations-on-new-opportunity-zone-tax-incentive>. In addition, the Internal Revenue Service issued FAQs at this link: <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>. On February 14, 2019, a public hearing was held on the draft regulations with over 175 comments received. On March 12, 2019, the Internal Revenue Service provided its recommendations to the Office of Information and Regulatory Affairs and the Office of Management and Budget. It is anticipated that new draft regulations will be issued by the end of April 2019. Clarification is needed as investors have been waiting for the regulations to be finalized. Key issues that remain to be resolved include refining the definition of substantial investment in real estate and investing in businesses.



CEDD has been developing and implementing the Tacoma Opportunity Zone Program in an entrepreneurial manner, as final program regulations have been evolving over the past year. The City completed an inventory of all Opportunity Zone properties in September 2018, sent a letter to Tacoma owners of commercial property informing them about the program, developed an Opportunity Zone Prospectus, participated in a one-day conference with Accelerator for America, marketed Tacoma Opportunity Zones to investors and conducted other outreach. Further engagement with funders, tax accountants, developers, property owners and others will be performed. Long-term relationships grounded in positive social impact will contribute to creating a program that will effect sustainable community revitalization and employment growth.

ISSUE:

Attract long-term investment and enable job creation in Tacoma's Opportunity Zones to meet community needs.

ALTERNATIVES:

This is an information briefing only.

FISCAL IMPACT:

This is an information briefing only.

RECOMMENDATION:

This is an information briefing only.