



LODI CITY COUNCIL

Carnegie Forum
305 West Pine Street, Lodi

"SHIRTSLEEVE" SESSION

Date: March 3, 2020

Time: 7:00 a.m.

*and via conference call:

437 E. Elm Street
Lodi, CA 95240

For information regarding this Agenda please contact:

Pamela M. Farris
Assistant City Clerk
Telephone: (209) 333-6702

Informal Informational Meeting

- A. Roll Call by City Clerk
- B. Topic(s)
 - B-1 Receive Overview of Opportunity Zones (CM)
- C. Comments by Public on Non-Agenda Items
- D. Adjournment

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

Pamela M. Farris
Assistant City Clerk

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CITY OF LODI COUNCIL COMMUNICATION

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AGENDA TITLE: About Opportunity Zones
MEETING DATE: March 3, 2020
PREPARED BY: Business Development Manager

RECOMMENDED ACTION: Receive PowerPoint Overview of Opportunity Zones

BACKGROUND INFORMATION: In recent months, interested parties have contacted the City Manager's Office about the potential of an Opportunity Zone program in Lodi. This PowerPoint overview explains opportunity zones and how they serve to facilitate private investment.

Opportunity Zones were added to the tax code by the Tax Cuts and Jobs Act on December 22, 2017 to stimulate private investment in economically distressed areas. In early 2018, Governors throughout the United States nominated census tracts meeting specific criteria to become certified as opportunity zones by the US Treasury. Private investment in opportunity zones is achieved only through opportunity zone funds by capital gains tax incentives.

California does not currently offer these capital gains tax incentives, however, 870 opportunity zones have been established in California. The exact number of Opportunity Zone funds is not certain, however, the estimates range from 207 to over 300 as of February 2020. According to GoBiz, Governor Newsome's economic development arm, the investment focus of these funds is wide-ranging from affordable housing for seniors and veterans to mixed-use, and from business start-ups to healthcare and broadband development.

Staff requests that City Council receive this presentation and provide guidance on next steps in order to realize the potential of Lodi's opportunity zone. There are twenty Opportunity Zones in San Joaquin County, nineteen in Stockton and one in Lodi.

FISCAL IMPACT: Not Applicable

FUNDING AVAILABLE: Not Applicable

Astrida Trupovnieks
Business Development Manager

Steve Schwabauer
City Manager

APPROVED: _____
Stephen Schwabauer, City Manager

About Opportunity Zones

A Private and Public Partnership

Opportunity Zone Topics

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- What are Opportunity Zones?
- How were they selected?
- What is a Qualified Opportunity Fund?
- What are the benefits of investing in an opportunity fund?
- How do cities benefit from private sector investment in an OZ?
- Where is Lodi's opportunity zone?
- Are there opportunity zone projects nearby?
- What are next steps?

What are opportunity zones?

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- Census tracts defined by IRS as economically-distressed areas where capital gains can be reinvested in qualified opportunity funds
- Added to the tax code by Tax Cuts and Jobs Act on December 22, 2017.
- Long-term reinvestments are eligible for three types of capital gains tax incentives

How were they selected?

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- Census tracts were nominated by state governors and certified by U.S. Treasury
- Census tracts had to meet one of two criteria including
 - a. At least 20% poverty rate
 - b. Median family income below 80% of statewide or metropolitan area median
- Adding census tracts or adjusting boundaries not currently an option

Why were Opportunity Zones created?

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- Stimulate private investment in low-income areas without public assistance from government programs
- Less restrictive than subsidies and credits
 - No cap on amount of capital that can be invested
 - Not subject to Congressional approval
 - Not subject to tax credit allocation authority (caps) by IRS or US Treasury
 - Opportunity Fund can self-certify

What is a Qualified Opportunity Fund?

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- Investment vehicle set up as a partnership or corporation
- Capital gains from prior investments are rolled over and reinvested
- Investments can be:
 - Partnership interests in businesses that operate in an OZ
 - Stock ownership in businesses that operate in an OZ
 - Factory equipment in an operating business
 - Real estate development located in an OZ
 - Single-asset or many assets in fund

What are the benefits of investing in a fund?

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- Defer paying capital gains tax until December 31, 2026
- Reduction of capital gains tax
 - If held 5 years reduction of 10 percent
- Exemption of capital gains tax
 - If held at least 10 years
- Capital gains tax benefits apply to original gain and potentially appreciation

How do cities benefit from OZ investment?

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- Introduce new capital investment opportunity that may not otherwise occur
 - Many low income communities don't receive private capital
 - Tax credit programs are limited
- Help residents and cities realize goals i.e. affordable housing, mixed-use and retail development
- Help cities realize economic gains
- Preferential consideration for federal and state grants

Stacking incentives makes OZ attractive

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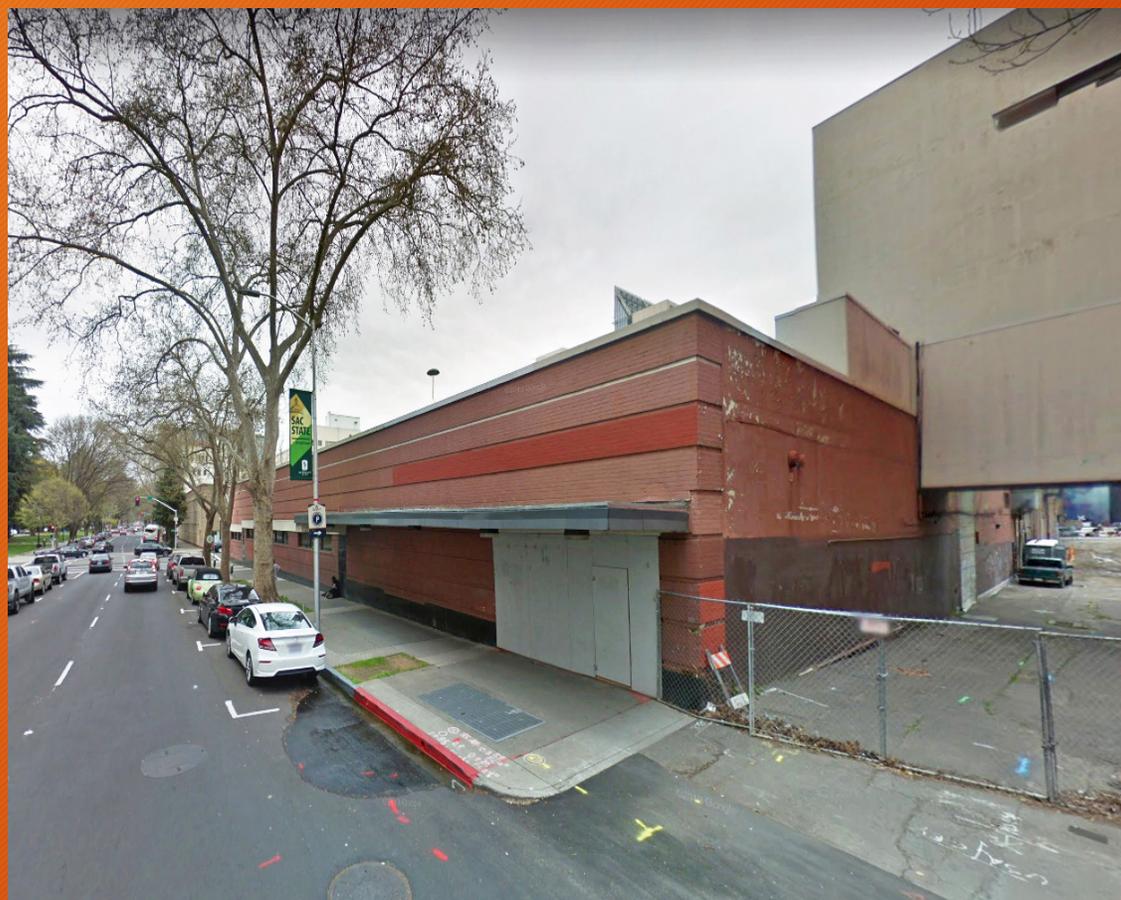
- The New Markets Tax Credit
- Historic Tax Credit
- Renewable Energy Tax Credit
- Low-income Housing Tax Credit
- Enhanced Infrastructure Financing District
 - Restores tax increment financing in California



Lodi Opportunity Zone

Sacramento OZ Project- Hotel & Residential

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Northern California OZ Projects

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- Mare Island- Vallejo



- Mixed Use- Santa Rosa



OZ Program in California

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- Some say OZ program in California is struggling.
 - California does not currently have capital gains incentive
 - Investors pay up to 13.3% capital gains tax in California
 - No mandatory reporting requirement
 - Cities/Media would not necessarily know projects have OZ fund dollars
 - Tight OZ timeframe and real estate development timeline not in alignment
 - Governor is proponent of capital gains tax conformity for affordable housing

Wide-ranging projects

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- Multi-family
- Mixed use
- Office
- Industrial
- Hospitality
- Broadband deployment
- Workforce Housing
- Real Estate
- Healthcare
- Small business development
- Renewable Energy
- Senior Housing
- Veterans Housing
- Operating business

By the numbers

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- **879** Opportunity Zones in California in 57 counties
- **3,000,000** Californians living in Opportunity Zones
- **8700** Opportunity Zones in US
- **6** years left to defer capital gains tax
- **6** years left to reduce capital gains tax by 10 percent
- **27** years left to make election of tax exclusion benefit
- **\$790** million in OZ equity raised May 2019
- **\$6.72** billion in OZ equity raised Jan 2020 (partial estimate)

Next Steps

Development Prospectus

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- Lodi data profile
- Lodi Opportunity zone profile
- Highlight Lodi Electric Utility and Water/Wastewater capacity
- Area highlights and anchor institutions
- Private and public investments profile
- Identify Lodi opportunity zone potential
- Identify local development incentives potential
- Invite formation of partnerships/opportunity funds