

Date of Hearing: August 28, 2018

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Cecilia Aguiar-Curry, Chair

AB 1445 (Reyes) – As Amended July 5, 2018

SUBJECT: Designated qualified opportunity zones: sale or lease of property.

SUMMARY: Requires a city or county leasing or selling property to a qualified opportunity zone fund (fund) to collect specific information.

The Senate amendments delete the Assembly version of this bill, and instead:

- 1) Mandate a city or county to require a fund, as part of any transaction for the sale or lease of property owned by the city or county that is located within a designated qualified opportunity zone to a fund for use as a qualified opportunity zone business property, to provide the following information:
 - a) A timeline for completion of the investment activity on the property;
 - b) An estimation of the number of jobs that will be created as a result of the investment activity on the property; and,
 - c) A summary of local workforce utilization strategies that will be employed as part of the investment activity on the property.
- 2) Provide that the fund shall supply the above required information as part of its request for sale or lease of property owned by the city or county.
- 3) Specify that a city or county shall not sell or lease property to a fund, unless the fund has submitted the above information.
- 4) Direct cities and counties to publish the above required information on its respective Internet Web site.
- 5) Define several terms by reference to federal law.

EXISTING LAW:

- 1) Federal law authorizes the Governor of California to designate certain census tracts within the state as “opportunity zones” where investments are made by individuals through special funds.
- 2) Federal law specifies that to qualify as an opportunity zone the area must have either poverty rates of at least 20%; or, median family incomes of no more than 80% of statewide or metropolitan area family income.
- 3) Federal law authorizes investments made by individuals through special funds in these opportunity zones to defer or eliminate federal taxes on capital gains.

FISCAL EFFECT: None

COMMENTS:

- 1) **Qualified Opportunity Zones.** On December 22, 2017, President Trump signed House Resolution (HR) 1, which enacted fundamental changes to the federal income tax, including allowing governors of states to designate certain census tracts as opportunity zones in their states. Under HR 1, investments made by individuals through special funds in these zones can defer or eliminate federal taxes on capital gains. The Governor can designate up to 25% of census tracts that either have poverty rates of at least 20% or median family incomes of no more than 80% of statewide or metropolitan area family income.

In March, Governor Brown designated a total of 879 census tracts, which the U.S. Department of the Treasury subsequently certified. The state does not offer any corresponding tax benefits.

According to the Internal Revenue Service (IRS) website, a fund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in a qualified opportunity zone. It utilizes the investor's gains from a prior investment for financing the fund. An eligible taxpayer becomes a fund by self-certifying, specifically by completing a form and attaching that form to the taxpayer's federal income tax return for the taxable year. The taxpayer does not have to work or have a business in an opportunity zone, and investing in the fund qualifies the taxpayer for tax benefits.

- 2) **Bill Summary.** This bill requires a city or county leasing or selling property to a fund to collect specific information regarding timelines, employment, and the local workforce. This bill also mandates the required information be posted on the city or county's website.
- 3) **Author's Statement.** According to the author, "AB 1445 assures that there is clear and transparent communication to communities by investors utilizing public lands through the newly created opportunity zones program. Ensuring that communities have access to key information from incoming investors will help mitigate concerns that this strategy of using tax incentives to spur economic development may hurt the communities that these new capital investments are meant to benefit. Creating a standard of transparency and communication around community benefit is critical as it relates to the impact of the sale or lease of city or county owned property. This should extend to when opportunity zone investors obtain lands previously used for public benefit."
- 4) **Arguments in Support.** None on file.
- 5) **Arguments in Opposition.** None on file.
- 6) **Substantially Amended.** The provisions of this bill have not been heard in an Assembly policy committee this legislative session.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958