League of Oregon Cities

To: Chair Nathanson and Members of the House Revenue Committee
From: Wendy Johnson, League of Oregon Cities
Re: HB 2144 (Opportunity Zones)

Incentive summary: The opportunity zone program is a new federal tax incentive that will allow realized capital gains to be transferred to an opportunity fund, where the money must be quickly invested in opportunity zones to enjoy federal tax deferment until 2026 at the latest. The tax basis is increased by 10% if the investment in the fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation. After the investment has been held for at least 10 years in a fund, any future gains earned on that investment are tax free, when the taxpayer liquidates his or her interest in the fund-- perhaps a decade or more from now. It is hoped that the opportunity zone program will be another tool to help grow Oregon businesses and spur development, including housing projects, by incentivizing investment in these zones throughout the state.

Oregon opportunity zone selection process: Governor Kate Brown nominated, and the U.S. Treasury approved 86 census tracts for opportunity zone designation in Oregon. The list of the approved zones with tract number, general location, and county can be viewed at https://www.oregon4biz.com/Opportunity-Zones**.** As you will see, there are designated zones across the state. A significant number of the zones are in rural Oregon. Business Oregon assisted Governor Brown in the selection of the zones, and the deadline for public input was March 14, 2018. Business Oregon partnered with AOC and LOC and others to receive community input on the selection of zones. The LOC then specifically reached out to city economic development staff, all city elected officials (mayors and councilors), and city managers/administrators to seek input on census tracts that would have investment opportunities and economic development needs. The response was high, and we were all pleased with the interest and collaboration that took place quickly to meet the federal timelines. There has been some critical press coverage of the selections, but it can't be emphasized enough how complex these decisions were. The state worked very hard to spread out the selections and to be strategic to choose tracts where there were both investment opportunities and needs. Federal rules weren't developed until after the selections had to be made and the state worked to create an attractive and competitive list.

The LOC emphasizes a couple of key points for why we oppose HB 2144:

1. The federal incentive program is a very new and the details are still being worked out. That is, opportunity funds are just now being created. It seems premature to start amending the incentive before the details are all understood.

2. This tax incentive is a tool that is competitive to some degree because national investors are looking at where to invest in 8,700 zones across all 50 states and American territories. If Oregon diminishes the value of the tax incentive, as suggested by HB 2144, the incentive would seem to be less attractive to investors—particularly local investors. On a recent National League of Cities call, we learned that states on both the East and West Coast are

getting the most interest as investors are looking for projects with the most potential for a return on their investment—i.e. where there is economic growth happening. Several Midwest states believe they are at a disadvantage and they are working hard on prospectuses and materials to market their zones to investors. We hope that Oregon will not squander the advantage it has.

3. The National League of Cities is encouraging cities to leverage opportunity zones as an opportunity to pull together public, private, and civic leadership to address existing priorities and breathe new life into pre-existing needs in zones. We ask the legislature to indeed work to make sure this program will work in Oregon and be leveraged as much as possible.

4. As with any private tax incentive, there is a risk that investments will not be aligned with community interests. However, city and county governments retain local control of local policy on projects through our land use processes of zoning, development codes, and site and design review which allow locals to ensure development meets community expectations.

5. Many investors estimate over $100 billion will be invested in zones across the country. And because the tax benefit is at its highest for those who invest in the early days of the credit (e.g. 2019 through 2025), much of that investment will happen soon. This is important to Oregon as we just learned from the state economists at the March 2019 forecast presentation that Oregon's job growth and overall economic growth is expected to slow in the next few years. Development spurred from the opportunity zone program could help maintain income streams in the slow years ahead and help maintain Oregon's budget trajectory.

6. While the opportunity zones do come with capital gains tax benefits to taxpayers, this type of incentive comes with increased tax bases for the state and local government taxing districts too. We can expect new or improved businesses and properties that will generate additional income taxes <u>and</u> property taxes. In addition, capital gains tax revenues are never a sure thing as tax payers can choose to defer them for years or do like kind exchanges to avoid capital gains taxes. Without this type of incentive, stock or property would often not be sold and reinvested, and for many communities, especially our rural communities, significant investments will simply not occur in these zones without an incentive.

Thank you for this opportunity to provide testimony. We look forward to continuing the conversation.