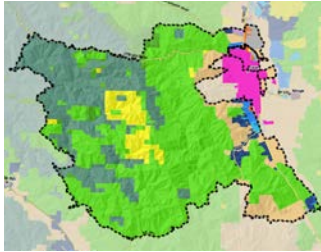


Opportunity Zones: An Economic Development Tool for Mendocino County

A report by Economic Development and Financing Corporation
Written by Heather Gurewitz, MCRP, Executive Director

Summary



There are currently three census tracts designated as Opportunity Zones (OZs) in Mendocino County. They include two census tracts in the greater Ukiah area and one in the northeast portion of the county (see maps for details). Opportunity Zones came into effect under the Tax Bill passed by Congress in 2017. They are designated by the Department of the Treasury who manages the program, but were nominated by the State of California that is also providing leadership at the state level. OZs are a new economic

development tool that can be used to encourage investment in low-income areas by providing tax incentives to investors. Because there are many details that are still being addressed, and because this program does not have reporting or deliverable requirements, there is still a lot of uncertainty about the program. Despite this, they are already being utilized across the country, and the findings show that state and local leadership are critical to ensure that Opportunity Zones deliver on their intended purpose. This leadership is essential as we look at how OZs can enhance Mendocino County's economy.

What is an Opportunity Zone?

As defined by the Internal Revenue Service (IRS), "An Opportunity Zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as Opportunity Zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation authority to the Internal Revenue Service."¹ The Governor of each state can designate up to 25% of eligible census tracts as opportunity zones. There are 3,516 eligible census tracts in California, and Governor Brown designated 879 census tracts over 57 counties.² Three of these newly created OZs are in Mendocino County.

How does it work?

In order to take advantage of an OZ, investors must work with a Qualified Opportunity Fund (QOF). A QOF is "an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in an Opportunity Zone and that utilizes the investor's gains from a prior investment for funding the Opportunity Fund."³ There are two ways that investors can take advantage of the QOF:

¹ IRS website, <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>, 9/2018

² California Department of Finance Website, http://dof.ca.gov/Forecasting/Demographics/opportunity_zones/, 9/2018

³ IRS website, <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>, 9/2018

1. *Investors can defer tax on any prior gains until the earlier of the date on which an investment is sold or exchanged, or December 31, 2026, so long as the gain is reinvested in a Qualified Opportunity Fund.*⁴
2. *If the investor holds the investment in the Opportunity Fund for at least ten years, the investor would be eligible for an increase in basis equal to the fair market value of the investment on the date that the investment is sold or exchanged.*⁵

To become a Qualified Opportunity Fund, an eligible taxpayer will self-certify using a form (not yet available at the time this report was written) and no approval or action by the IRS is required. The form will need to be attached to the taxpayer's federal income tax return for the taxable year. (The return must be filed in a timely manner, taking extensions into account.)⁶

Early Recommendations and Best Practices from the Field

To say that there is a lot of excitement around Opportunity Zones is an understatement, but a lot of the details are still being worked out. These details are key to determining if they will be successful in their purpose. That said, OZs have no reporting requirements beyond the IRS investment reporting. Therefore, unless states and local jurisdictions take the initiative, the impacts of Opportunity Zones on economically depressed areas will be difficult to quantify.

Lack of details aside, many organizations are proactively working on the best ways to include Opportunity Zones as a tool for economic development, including the Council of Development Finance Agencies (CDFA). CDFA regularly releases reports and information on Opportunity Zones and the latest headlines from other researchers across the nation. There is a general consensus among these organizations that state and local jurisdiction engagement, local strategy development, and continued monitoring of the rules and regulations around OZs and QOFs are essential components for successful local implementation. CDFA's Opportunity Zone Resource Center is currently the best source of information on the web: <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html>. As details continue to emerge, this site is worth tracking.

The majority of the literature and information about OZs seems to focus on urban real estate investment, housing development, and distressed urban properties. This is interesting given the Local Government Commission report on Opportunity Zones which indicates that across the United States, "45% [of OZs] are located in rural census tracts, 33% in urban, and 22% in suburban."⁷ This disparity in research is most likely because of the lack of resources available in rural areas that are available in urban areas. It does point to a need for the State of California to provide additional attention, support, and resources for rural Opportunity Zones.

As we look at the impacts and potential of OZs, a recent report published by the Kresge Foundation and the Brookings Institute is worthy of note. It recaps a discussion about Opportunity Zones between national and local experts in community and economic development and finance. In particular, it looks at how cities can encourage Opportunity Funds to invest in the low-income neighborhoods that need it most without creating harmful gentrification. The article discusses three principles that they believe are

⁴ *ibid*

⁵ *ibid.*

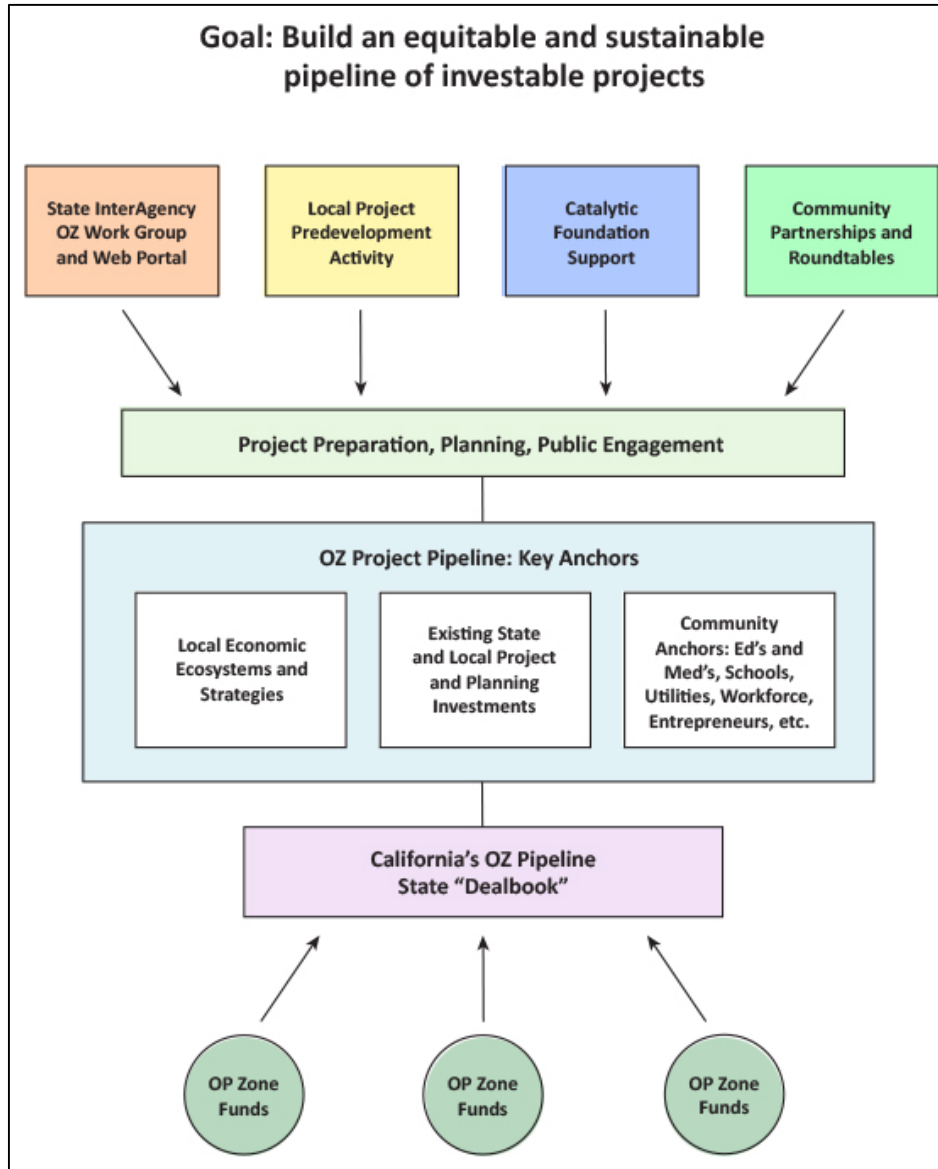
⁶ *ibid.*

⁷ Local Government Commission, <https://www.lgc.org/opportunity-zones/>, 10/2018

central to creating equity and inclusive economic development in OZs: intentionality, leverage with other economic development tools, and public-private partnerships/economic development coalitions.⁸ While gentrification may not be a huge concern for our area, it is important to note that development in the greater Ukiah area needs to be inclusive and thoughtful.

Opportunity Zones: The California Strategy

The State of California has been proactive in developing a statewide strategy for Opportunity Zones which was publicly released with the launch of the California Opportunity Zone website, <https://opzones.ca.gov/>, in September of 2018.



Source: State of California, California Opportunity Zones Website, <https://opzones.ca.gov/strategy/>, 10/2018

⁸ Barker, Rachel and Alan Berube. “Opportunity Zones and shared prosperity: Emerging principles from Cleveland” <https://www.brookings.edu/blog/the-avenue/2018/09/19/opportunity-zones-and-shared-prosperity-emerging-principles-from-cleveland/>, Wednesday, September 19, 2018, Brookings Institute, The Avenue

The state strategy for 2018, according to the website:

“is focused on investable pipeline development and community engagement. The state’s inter-agency OZ working group is reaching out to both California communities and investors to highlight how co-investment in transformative climate communities and other pre-existing local and state investments in designated OZ areas can offer co-investment opportunities for newly-forming OZ Funds, in line with the state’s vision of a sustainable and equitable future.”⁹

Additionally, the interagency working group created by the Governor to support the implementation of Opportunity Zones in California, is actively working on community partner engagement, investor engagement, and policy.¹⁰ Given the number of forestlands included in the designated census tracts, it will be worth looking at ways that we can work with the state to leverage Opportunity Zones with sustainable and community-based forestry as well as carbon sequestration and biomass project development.

Challenges for Implementation

As more details have emerged, the value of OZs, from a private sector stand point, has diminished significantly. EDFC spoke with Richard Selzer, owner of Realty World Selzer Realty. Mr. Selzer has been following OZs as a real estate broker and investor. In the discussion, Mr. Selzer reported the following:

- The capital gains deferral offered through the OZ program is not as positive as tax deferrals available through real estate exchange tax deferrals under IRC 1031. Therefore, someone who is potentially going to have capital gains from the sale of real estate would not have a greater incentive to invest into an OZ and in fact, a QOF would likely not provide as much of a tax deferral incentive as a real estate exchange.
- The potential benefit would mainly be for individuals who receive capital gains from either the sale of stock or a non-real estate asset.

In short, it appears that as the OZ’s have become more defined on the investment side, they have become less attractive to potential investors who work in real estate and are narrowly targeted at individuals who have capital gains from the sale of stocks, business assets, or other assets. This may limit the use of opportunity zones by local individuals, however, an Opportunity Fund located anywhere in the United States can invest in any OZ anywhere, it does not matter where the QOF is located.

Utilizing OZ’s as an Economic Development Tool in Ukiah and Mendocino County

Economic Development and Financing Corporation has been tracking Opportunity Zones since the list of locations was released in the spring of 2018. OZs have the potential to be important economic development tools that can transform economically depressed areas. However, it will be difficult to know if they meet that potential until the rules are all in place. Collaboration and local leadership will be essential for Opportunity Zones to be of benefit in Mendocino County. The following are some preliminary recommended actions:

⁹ State of California, Opportunity Zones Website: <https://opzones.ca.gov/strategy/>, October, 2018

¹⁰ Ibid.

Engage Interested Stakeholders

EDFC should continue to stay informed on Opportunity Zones and engage local government and stakeholders as the potential for OZs becomes more clearly defined.

Include OZs as an Economic Development Tool in Strategic Planning

- As the County and EDFC are planning to embark on a significant economic recovery and resiliency planning process, an OZ strategy should be integrated into the overall economic strategy.
- As projects are identified in the planning process, those located in OZs should be specifically noted.

State Engagement

- The State of California launched its Opportunity Zone website in September of 2018. EDFC has initiated contact with the state and developing that connection will be immensely valuable.
- The County and City should encourage the State to host a regional stakeholder forum in Mendocino County to address the North Coast (Del Norte, Humboldt, Mendocino, and Lake Counties). If that isn't successful, Ukiah and the County should send a representative to participate in a stakeholder session in another part of the state.
- There are investors all over the state showing interest in Opportunity Zones. By working with statewide organizations, Mendocino County may be able to access funds located in major cities that have an interest in sustainable forestry, energy production, and/or agriculture.

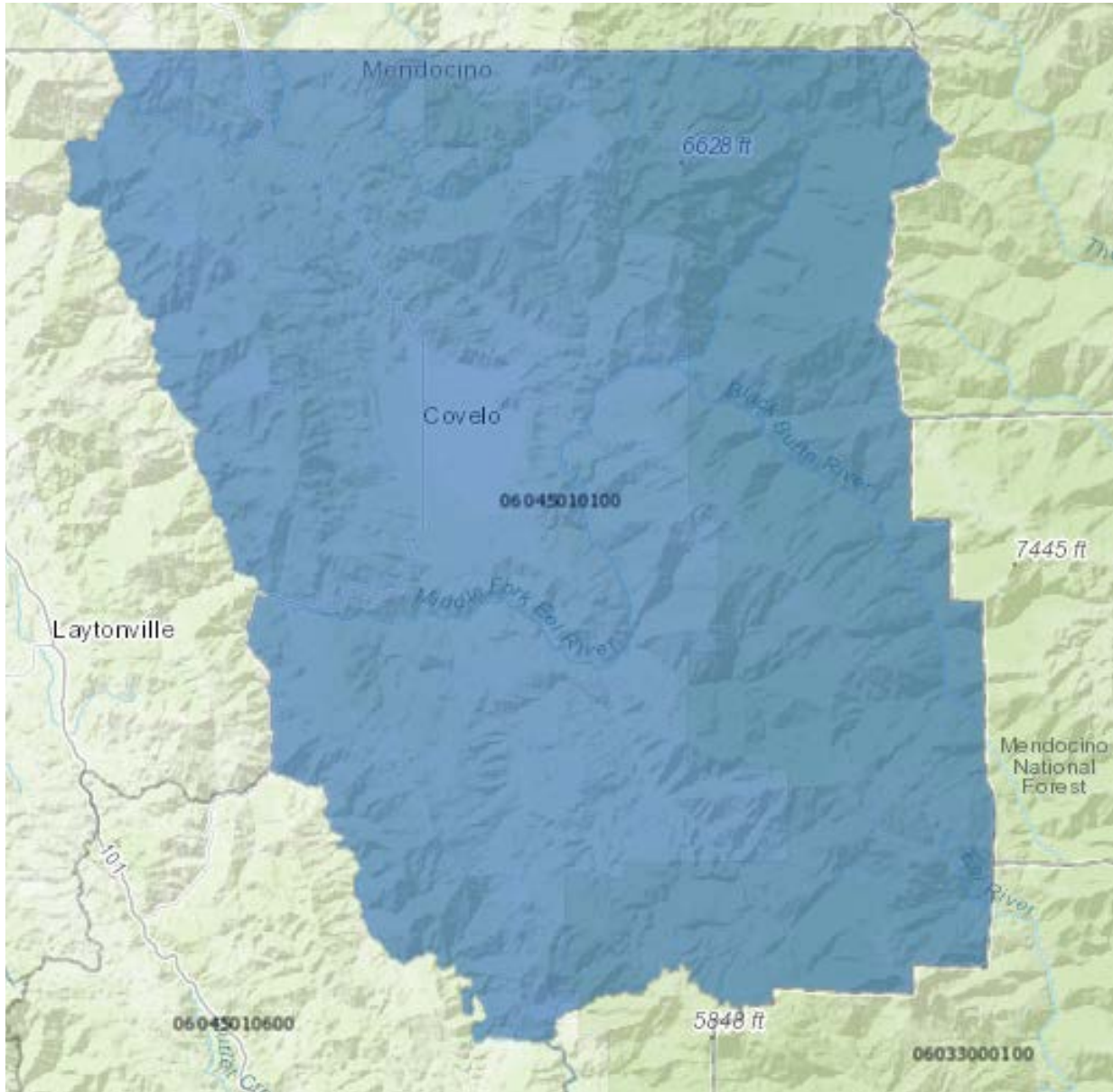
Collaborate

- City of Ukiah and Mendocino County should consider working together to determine how best to leverage the opportunity zones in each jurisdiction and to track the impacts and outcomes of Opportunity Fund investments in Mendocino County.
- A more detailed analysis of the zoning and land use capacity in the OZs between both jurisdictions would be a worthwhile exercise.
- A government, non-profit, and private sector partnership may be the best way to leverage QOFs locally.

Maps: Opportunity Zones in Mendocino County

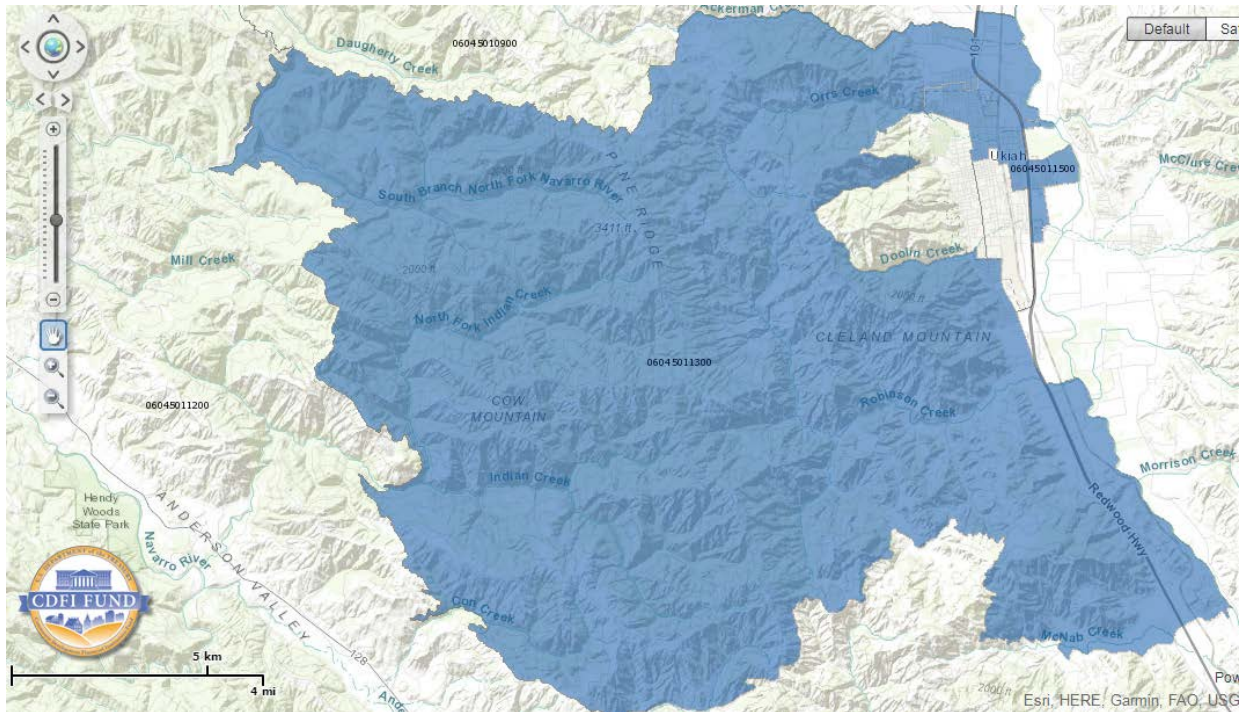
There are three main census tracts that are currently identified as Opportunity Zones in Mendocino County, these are 06045010100, 06045011300 and 06045011500. The zones include both incorporated and unincorporated portions of the greater Ukiah area. The following maps show the extent of the opportunity zones shaded in blue. The last two maps in this section show the zoning in the Opportunity Zones, both in the city limits of Ukiah and in the unincorporated areas of Mendocino County.

North-East Mendocino County Census Tract 06045010100



Source: https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml

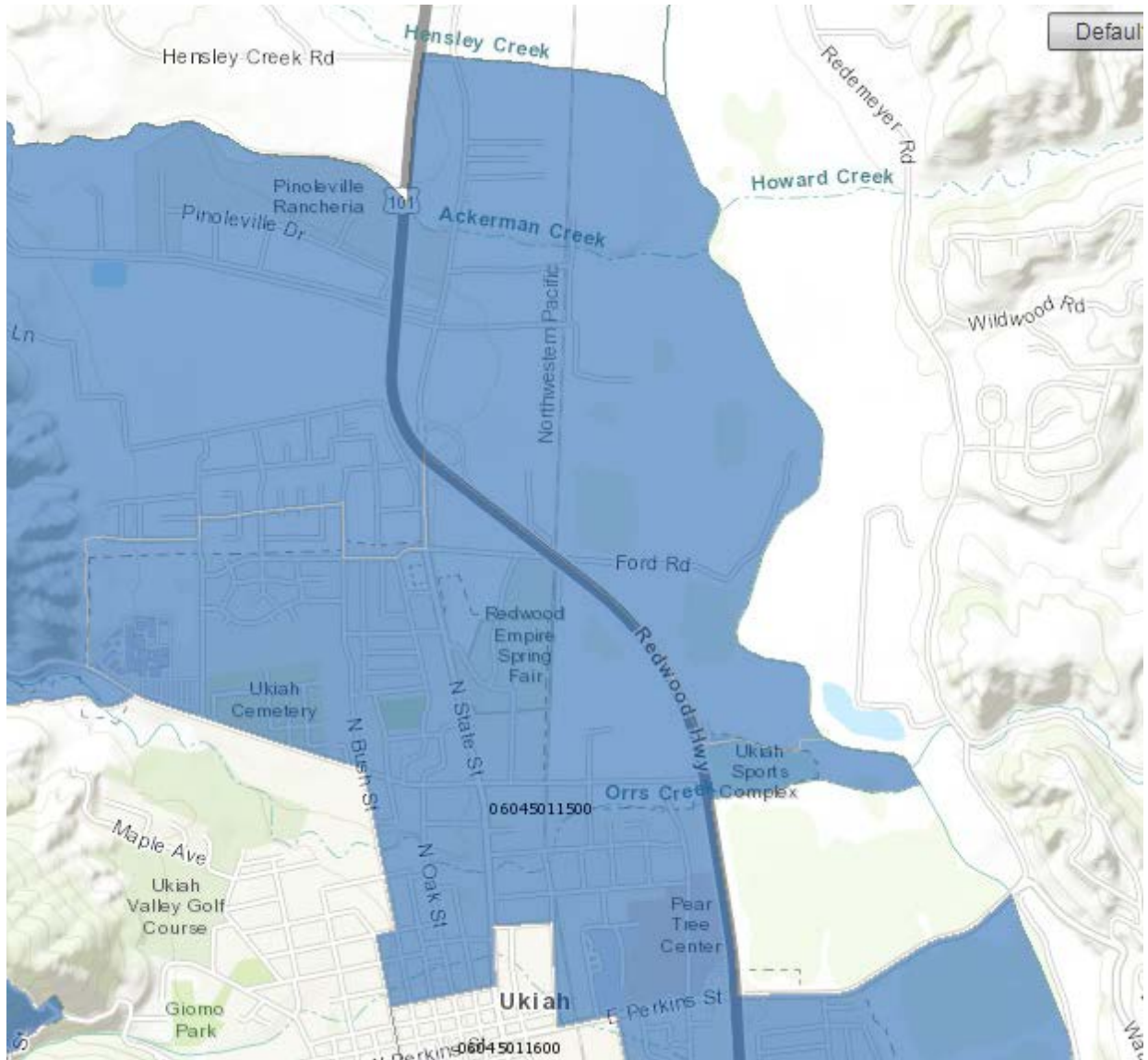
Greater Ukiah Valley Census Tracts 06045011300 and 06045011500



Source: https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml

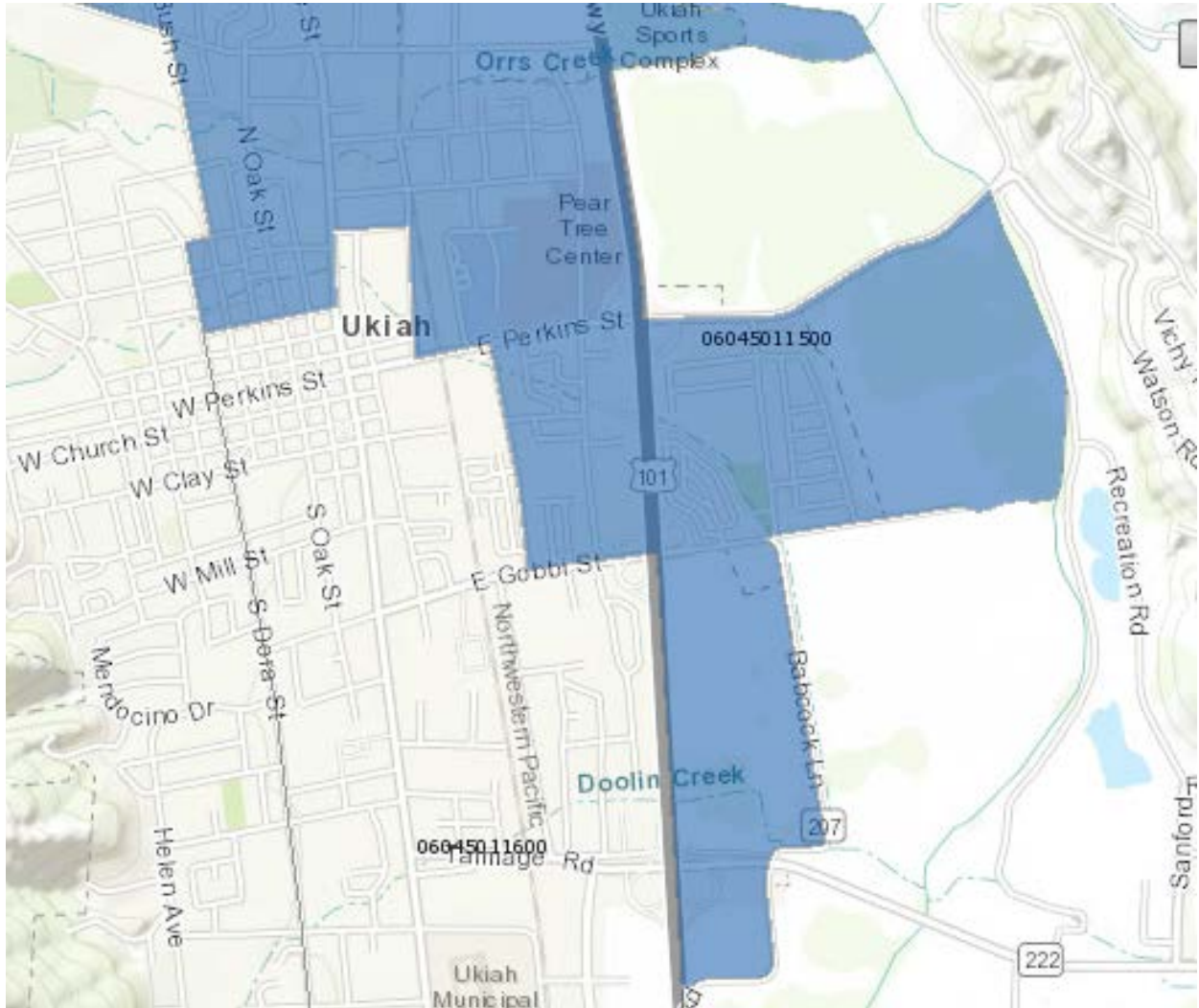
The Opportunity Zone covers a significant portion of the coastal range to the west of Ukiah. As this land is not particularly suitable for development, the following maps show the areas more likely to generate investment.

North Ukiah Opportunity Zone



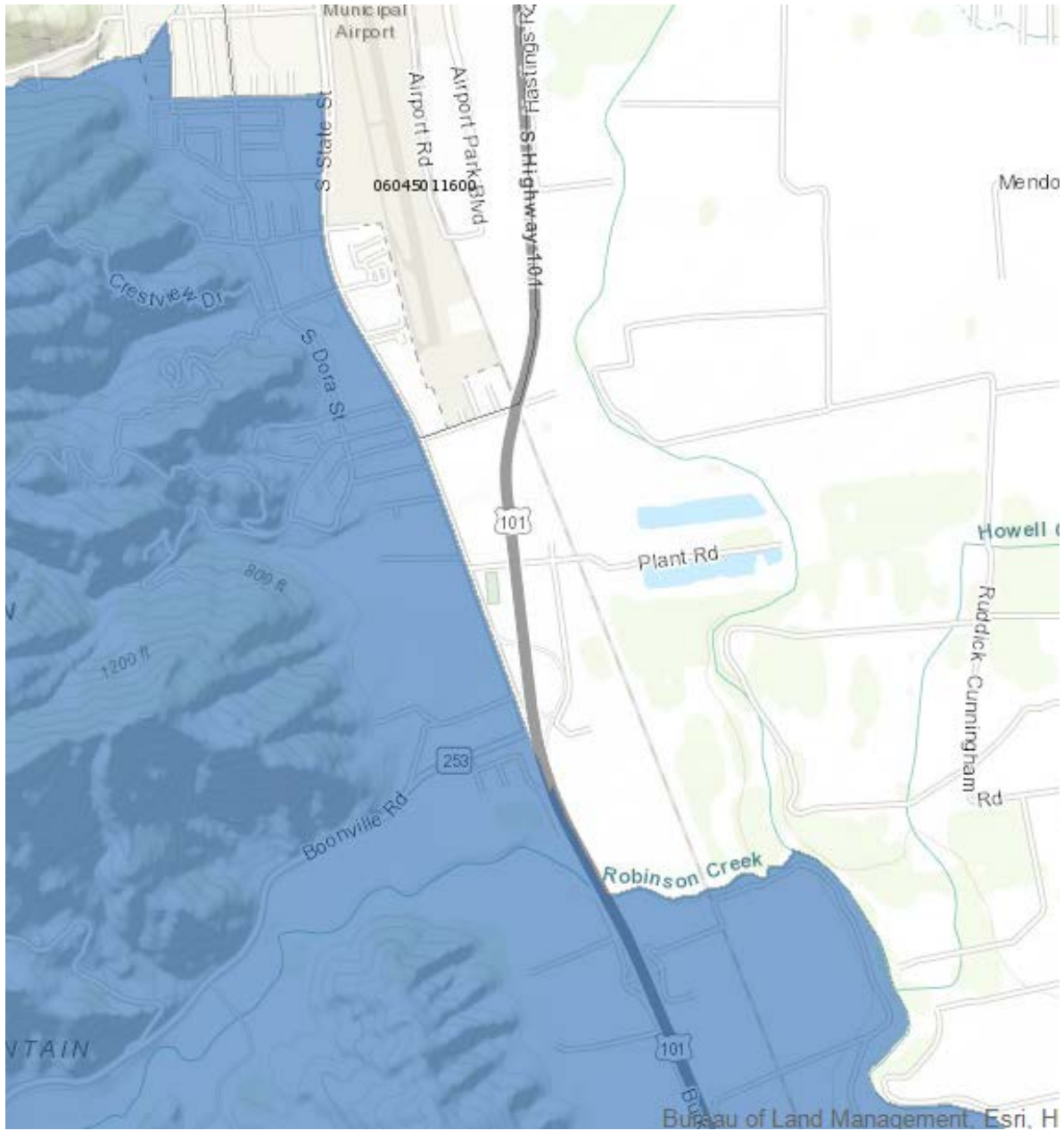
https://www.cims.cdfifund.gov/preparation/?config=config_nmhc.xml

Central Ukiah Opportunity Zone



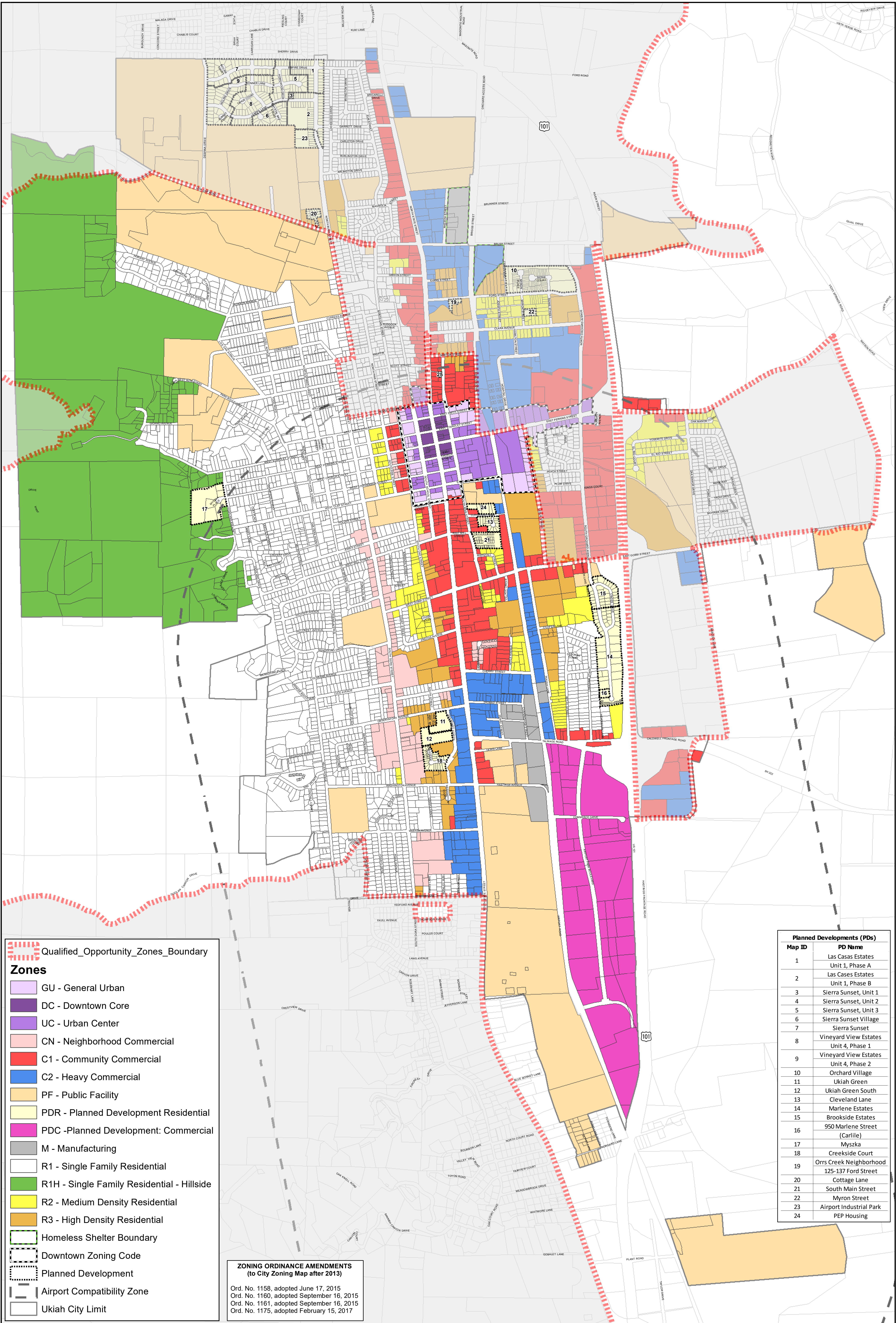
https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml

South Ukiah Opportunity Zones



https://www.cims.cdfifund.gov/preparation/?config=config_nmhc.xml

CITY OF UKIAH ZONING MAP



Qualified_Opportunity_Zones_Boundary

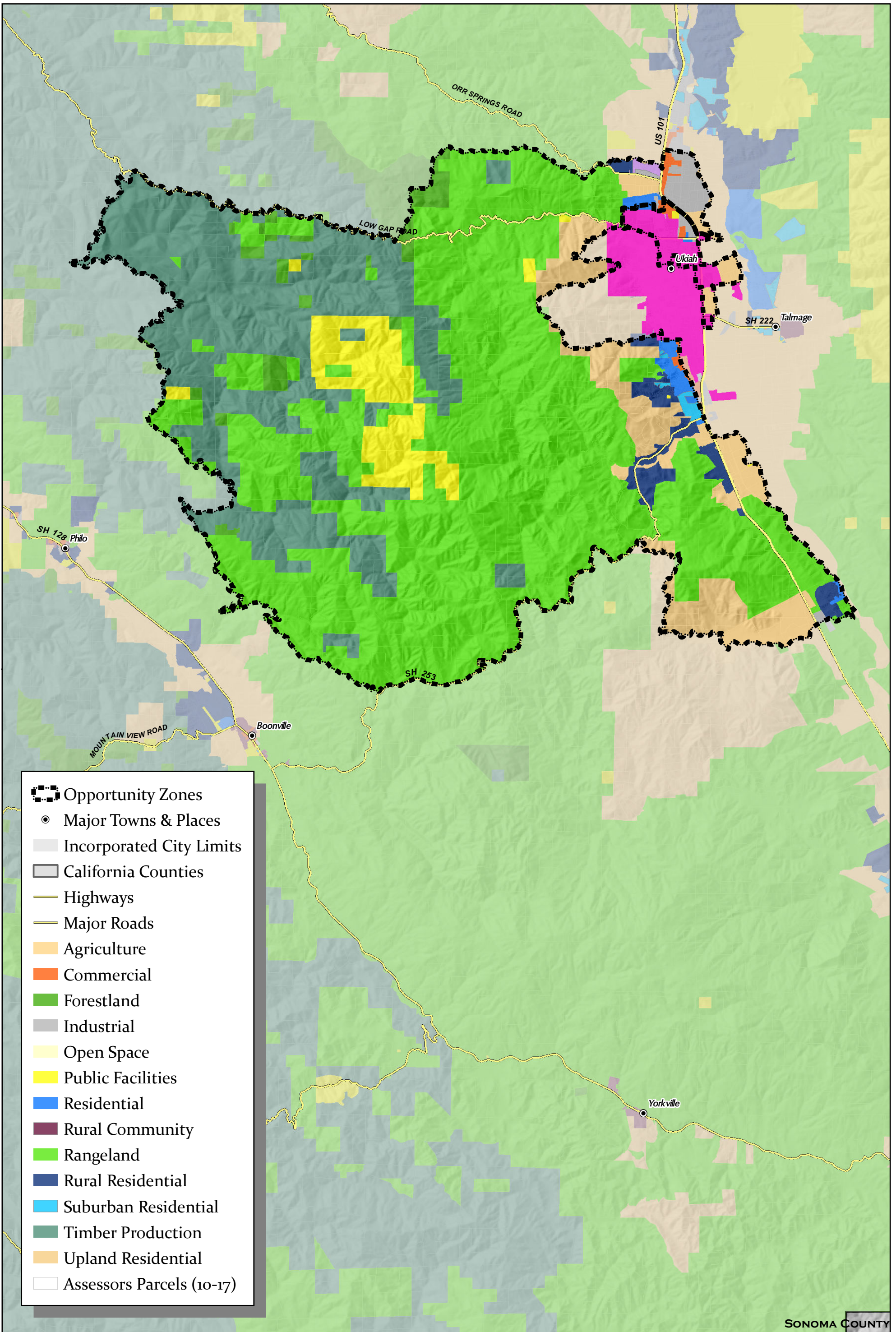
Zones

- GU - General Urban
- DC - Downtown Core
- UC - Urban Center
- CN - Neighborhood Commercial
- C1 - Community Commercial
- C2 - Heavy Commercial
- PF - Public Facility
- PDR - Planned Development Residential
- PDC -Planned Development: Commercial
- M - Manufacturing
- R1 - Single Family Residential
- R1H - Single Family Residential - Hillside
- R2 - Medium Density Residential
- R3 - High Density Residential
- Homeless Shelter Boundary
- Downtown Zoning Code
- Planned Development
- Airport Compatibility Zone
- Ukiah City Limit

**ZONING ORDINANCE AMENDMENTS
(to City Zoning Map after 2013)**

Ord. No. 1158, adopted June 17, 2015
 Ord. No. 1160, adopted September 16, 2015
 Ord. No. 1161, adopted September 16, 2015
 Ord. No. 1175, adopted February 15, 2017

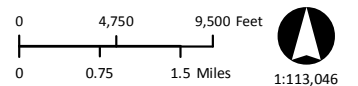
Planned Developments (PDs)	
Map ID	PD Name
1	Las Casas Estates Unit 1, Phase A
2	Las Casas Estates Unit 1, Phase B
3	Sierra Sunset, Unit 1
4	Sierra Sunset, Unit 2
5	Sierra Sunset, Unit 3
6	Sierra Sunset Village
7	Sierra Sunset
8	Vineyard View Estates Unit 4, Phase 1
9	Vineyard View Estates Unit 4, Phase 2
10	Orchard Village
11	Ukiah Green
12	Ukiah Green South
13	Cleveland Lane
14	Marlene Estates
15	Brookside Estates
16	950 Marlene Street (Carlile)
17	Myszka
18	Creekside Court
19	Orrs Creek Neighborhood 125-137 Ford Street
20	Cottage Lane
21	South Main Street
22	Myron Street
23	Airport Industrial Park
24	PEP Housing



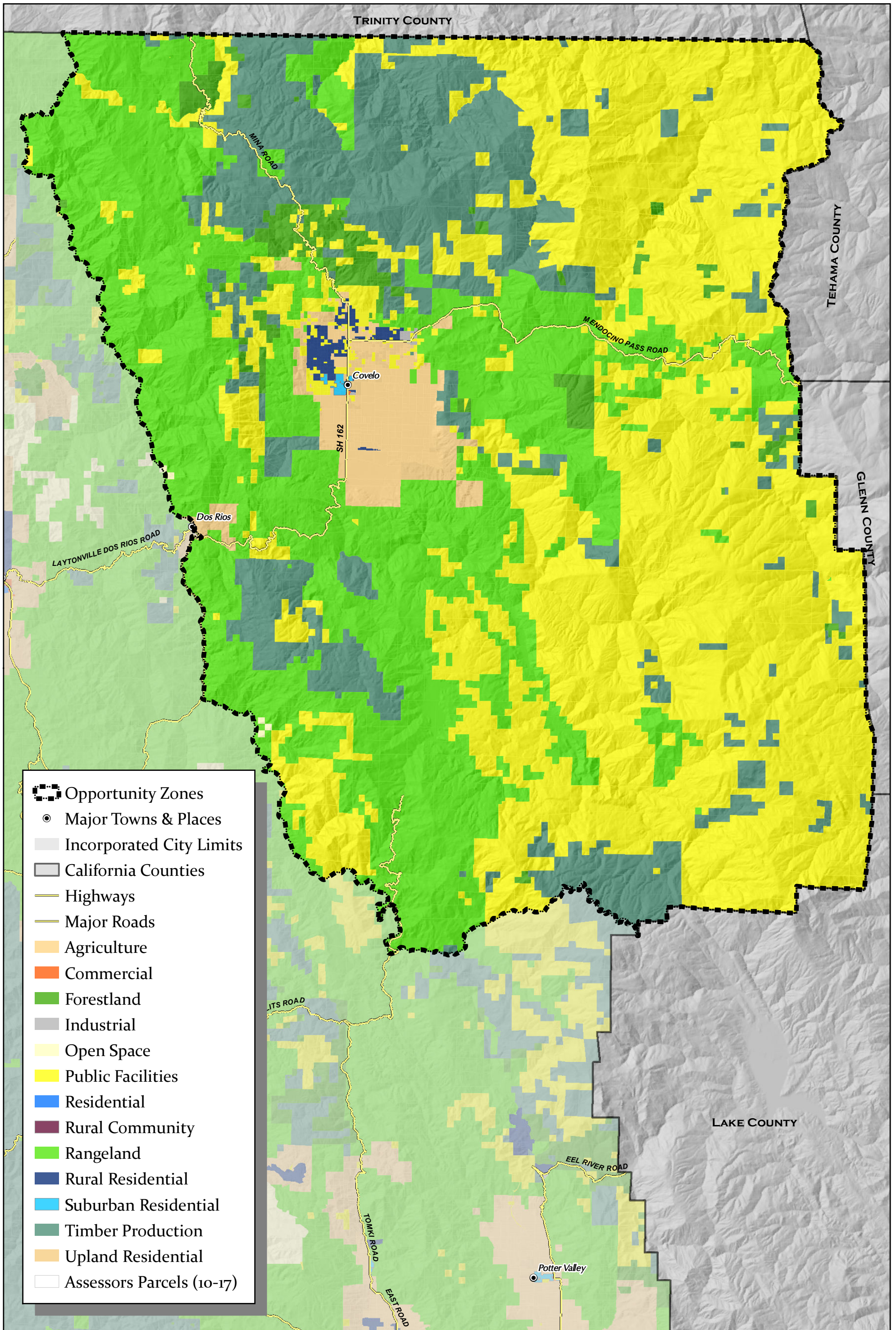
SONOMA COUNTY

Map produced by the Mendocino County Planning & Building Svcs. Dept., October, 2018
 Coordinate System: NAD 83, Calif. State Plane Zone II
 Projection: Lambert Conformal Conic
 Parcel Data: Mendocino County Information Services, October, 2016
 Aerial Imagery: US Dept. of Agriculture/ArcGIS Online mosaic
 Topographic Data: USGS 7.5 minute quad series Mount Diablo Base & Meridian
 Parcel numbers are for tax purposes only and do not represent legal or salable parcels.
 All spatial data is approximate. This map is not a substitute for a proper land survey.

OPPORTUNITY ZONES & ZONING DISTRICTS

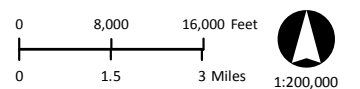


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OPPORTUNITY ZONES & ZONING DISTRICTS



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