May 6, 2019

The Honorable Gavin Newsom  
Governor  
Office of the Governor  
California State Capitol  
Sacramento, CA 95814

The Honorable Toni Atkins  
President Pro Tem  
California State Senate  
State Capitol, Room 205  
Sacramento, CA 95814

The Honorable Anthony Rendon  
Speaker  
California State Assembly  
State Capitol, Room 219  
Sacramento, CA 95814

Re: Support Local Economic Development Through Opportunity Zones

Dear Governor Newsom, Senate President Pro Tempore, and Speaker Rendon:

As you know, Opportunity Zones were developed as a bipartisan idea that garnered more than 100 co-sponsors in Congress and were later included as part of the Federal Tax Cuts and Jobs Act of 2017. With the potential to drive private capital to long-overlooked parts of the country, Opportunity Zones are positioned to be an important new community and economic development tool to create an incentive for long-term private investment in urban, suburban and rural communities.

California has identified 879 census tracts as Qualified Opportunity Zones (QOZs),
representing 4.2 million individuals, or 10.7% of the state population. The State is at a pivotal moment to shape the incentive toward community benefit, and that, if done right, Opportunity Zones can be an important tool that will advance our shared priorities of economic growth, climate resilience, affordability, and access to the California Dream. With that in mind, we urge you to adopt the following strategies:

1. **Clear reporting and transparency requirements for OZ funds and projects.**

The federal legislation creating Opportunity Zones did not include meaningful transparency and reporting requirements. California should require annual reporting from Opportunity Zone investors and Qualified Opportunity Funds. Further, we believe the State should endeavor to report on this information on a reasonable but frequent basis, including making public enough non-proprietary information about funds and transactions so that Californians can better understand how the incentive is being utilized in our communities.

We are pleased to see state and federal leaders agree with this point. We believe that the bipartisan Congressional legislation co-sponsored by Opportunity Zone co-authors Senators Booker and Scott as well as California Senate Bill 315 introduced by Senate Majority Leader Hertzberg are both promising efforts at requiring reasonable and meaningful metrics. We look forward to working with the Governor and the legislature to further these efforts, achieving the right balance of transparency, accountability, and efficiency.

2. **Community Sponsorship for Tax Conformance**

California’s effort to align state tax treatment for Opportunity Zone investment with the federal incentives is important for our communities. However, an alignment of these incentives is both necessary and risky. On one hand, state-level tax benefit may provide tremendous benefit in making a range of investment more achievable and financially viable – especially in areas of our communities that have not traditionally seen investment. On the other hand, we acknowledge the skepticism that exists given the mixed results of prior tax-incentive based economic development programs. However, given the challenges facing our State and the likelihood that a decision to remain as non-conforming state would reduce California’s competitiveness for OZ investment, we believe the need for additional equity capital and increased economic activity is too great to let past difficulties preclude future potential.

We support the Governor’s desire to focus the state’s Opportunity Zone incentives toward the critical state priorities of affordable housing and clean energy projects. However, there are many worthy projects that our unique communities are eager to see happen, including additional workforce and transit-oriented housing; grocery stores in food deserts; broadband infrastructure; and small businesses in need of growth capital. For that reason, we request that the State provide discretion for localities to designate additional project categories to be eligible for favorable state tax treatment. We are confident that our communities can define, support, and monitor the development of projects that present significant potential for economic and community benefit, including those outside the
scope of the initial definitions put forth by the State. Allowing for local discretion will both ensure community priorities remain at the center of Opportunity Zone investments and ensure that community leaders are at the table alongside entrepreneurs, developers, and investors.

3. **State support for local regional economic development capacity**

Finally, we know that one of the key elements of creating impact with Opportunity Zones is in ensuring a high-quality pipeline of quality projects.

As you know, there is a consistent lack of funding, expertise, and support systems needed to nurture nascent projects through the risks, uncertainties and complexities common in the early stages of development. Far too often, market forces alone are not enough to move these projects forward in a way that can catalyze economic and community benefits.

Where state and local priorities align, a new infusion of state resources would augment local efforts and accelerate impact-oriented Opportunity Zone projects to ‘investment ready’ status. This could include:

- **Pre-development grants and loans** to support community foundations in building their local Opportunity Zone ecosystem;

- **Technical assistance** to aid cities in data-driven decision making for investments;

- **Fellowship opportunities** to deliver on-site capacity, including supporting the addition of executive-level talent focused on building and executing Opportunity Zone projects.

We believe that this combination of strong reporting and transparency requirements, local discretion for state tax conformance, and state support for regional capacity building and pipeline development represents a powerful set of tools to help California lead the nation in impact-focused Opportunity Zones.

Together, we can collectively achieve shared success to accelerate equitable, sustainable and resilient economic development where it is most needed in our communities.

Sincerely,

[Signature]

Darrell Steinberg  
Chair, Big City Mayors  
Mayor, City of Sacramento
Eric Garcetti
Mayor, City of Los Angeles

Kevin Faulconer
Mayor, San Diego

Sam T. Liccardo
Mayor, City of San José

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