Understanding the Tax Cuts and Jobs Act of 2017

Presented by:

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What is it?

• A comprehensive tax reform bill
• It creates “Opportunity Zones” and “Opportunity Funds”
• Allocates $3.5 Billion in New Markets Tax Credits
Opportunity Zones

- Governors of all 50 states and of Puerto Rico designate up to 25% of their high-poverty census tracts as Opportunity Zones.
- 5% of Opportunity Zone Tracts may be non low-income as long as they are contiguous to a qualified, nominated tract and their median income does not exceed 125% of the contiguous qualified tract.
- If there are fewer than 100 such high-poverty census tracts, the Governor may designate up to 25 tracts regardless of poverty level.
Opportunity Zones (cont.)

• Governors must choose areas that: (1) are currently the focus of mutually reinforcing state, local or private economic development initiatives to attract investment and foster startup activity; (2) have demonstrated success in geographically targeted development programs such as promise zones, the new markets tax credit, empowerment zones, and renewal communities; and (3) have recently experienced significant layoffs due to business closures or relocations.

• Treasury Secretary certifies the Governors’ recommendations.
How Do They Work?

• Allows taxpayers to defer paying federal tax on capital gains from property sales if the gains are invested in Qualified Opportunity Funds that invest 90% of their assets in businesses located or property used in a designated low-income community.

• Investors receive modest tax reductions if they maintain their investments for at least 5 and/or 7 years.

• Investors that hold capital in those funds for 10 years do not have to pay capital gains tax on the appreciation of their Opportunity Zone investments.
NMTC vs Opportunity Zones

• New Market Tax Credits ("NMTC") and Opportunity Zones are similar but distinct.
• NMTC are normally used to subsidize loans to qualified businesses in low-income communities. Opportunity Funds are required to use funds from deferred gains to make equity investments or acquire property in Opportunity Zones.
• NMTC is subject to an annual limit; recently it has been $3.5 Billion. Opportunity Zones have no limits.
Maintaining Competitiveness

• The Governance Project recommends four principles that should guide the selection and development of Opportunity Zones.

• (1) Identify areas that demonstrate both social need and market traction.

• (2) Link capital investments to human capital strategies to maximize impact for lower income residents.
Maintaining Competitiveness (cont.)

• (3) View Opportunity Fund investment capital as integral to a comprehensive, multi-year investment strategy that leverages and partners with additional public, private, and independent sector debt and equity providers to build sustainable businesses, ensure a skilled workforce, and strengthen community development.

• (4) Ensure a high quality data system to collect information on investments and provide a feedback loop for ongoing measurement and improvement.
Why Does this Matter?

• Some say there is $2.3 Trillion in unrealized capital gains on stocks and mutual funds. Opportunity Zones can be the recipients of that capital.

• Congress intends to preserve incentives for affordable housing expansion, economic development investment in low-income communities, and development of specific renewable energy technologies, including solar and wind, as well as encouraging increased investment into capital assets, including equipment, for the expanded production of income.
Port of Hueneme - NMTC Structure

- **Oxnard Harbor District**
  - Leverage Lender

- **Wells Fargo**
  - NMTC Investor

- **Clearinghouse, CDFI**
  - Community Development Entity (CDE)

- **Port Renovation, Inc.**
  - QALICB – A California Non-Profit Special Purpose Entity,
    Governed by a 5 Person Board

- **Oxnard Harbor District**
  - Lessee of Arcturus Road
  - Sub-Lessee of Arcturus Road

- **Oxnard Harbor District**
  - Lessee of Shoreside Power Equipment

- **Channel Islands Logistics, LLC**
  - Sub-Lessee of Arcturus Road
Port of Hueneme NMTC

• Emissions reduction – up against a looming deadline.

• Shoreside Power is part of the answer.

• Where’s the money?

• Enter: New Markets Tax Credits

• Our story
Hueneme’s NMTC Story

• The Money
• The Need
• The Politics

The Project evolves
NMTC Basics

• The Power

• The Players

• The Priorities

• The Process
Questions and Thanks

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