

Investors likely to have high expectations for Emerald Coast Opportunity Zone

PORT ANGELES — Port of Port Angeles officials are discovering possible limitations to what the Emerald Coast Opportunity Zone can offer to rural areas.

Among the constraints of the capital gains tax-break program is the high rate of return that likely will be required by Opportunity Zone investors, an impediment described by Port Commissioner Colleen McAleer at the commissioners' meeting last Monday.

But Forks City Attorney-Planner Rod Fleck said Wednesday there is still a chance that investors will be interested in projects on the North Olympic Peninsula.

At the meeting Monday, McAleer gave a half-hour report on the state Opportunity Zones Conference she and Fleck attended Nov. 15 in Seattle.

It was hosted by the state Department of Commerce and the Federal Reserve Bank of San Francisco.

About 150 people attended the event, including representatives of Opportunity Zones and those interested in learning more about them from across the state.

A representative of Maryland-based Enterprise Community Investments, which has \$1 billion to put into opportunity zones across the country, said he expected a 12 percent to 14 percent rate of return over 10 years, which includes a fee of 2 percent for the manager of the fund, McAleer said.

The 12 percent to 14 percent return rate "was the number we heard over and over again," McAleer said.

"So, if you have a project, you need to make sure you make 12 [percent] to 14 percent.

"That kind of made people's jaw drop over that," she said.

"This is not a social service that is just grants," McAleer said participants were told.

"It has to have a viable return."

In his opening remarks, Lt. Gov. Cyrus Habib stressed the need for community collaboration and the ability of communities to do more if they are not competing.

That's one reason all the census tracts applied for as part of the Emerald Coast zone were approved for participation in the Opportunity Zone program, McAleer said.

The Emerald Coast Opportunity Zone is comprised of census blocks in Clallam and Jefferson counties and has stakeholders including five tribes, the cities of Port Angeles, Forks and Sequim; the Port of Port Angeles, EDC-Team Jefferson and the Clallam County Economic Development Corp.

"That's a strong goal of the governor, to integrate tribal projects with the greater community," McAleer said.

Investors defer capital gains taxes by first rolling them into an Opportunity Fund and having them reduced until, after 10 years, no taxes are paid on the gains from the Opportunity Fund investment.

"You can only invest in tangible assets, so how would that work?" McAleer said, citing one of the questions that conference attendees are waiting to have answered.

They also were looking for clarity on programs in which a government is a partner.

Investors also can own only up to 20 percent of a new Opportunity Zone investments and must reinvest the gains within 180 days of the gains being realized, McAleer said.

"We need more clarification on if a project takes a loss, can you balance that with other gains you have," McAleer added.

Projects also must be permit-ready for investors, she added.

"It sounds like they are just treating this as venture capital," Port Angeles-area port Commissioner Steven Burke said.

One potential Opportunity Zone project discussed at the conference is in Tacoma, where a blighted urban area would be improved.

Port board President and West End Commissioner Connie Beauvais said rural areas could be at a disadvantage in the program.

"This was set up to help the infrastructure of rural America," she said.

"At first there was this thought out there that it was a rural initiative," Burke said.

“It wasn’t. It didn’t have anything to do with rural or urban, it had to do with low income.

“Unfortunately, the purpose behind the Opportunity Zone was to create investments in areas that have low returns, but this isn’t going to accomplish that because they still want a high return even though they are going to get a tax break.”

Burke said Wednesday he did not want to see rules that are emerging for the program make it unattractive for investment in rural communities.

“I hope it works, but we’ll see,” Burke.

“It could be just an amazing program for us, but as the rules are developing, and we’re learning more about it, it’s not the panacea for all our problems that maybe we thought it was in the beginning.”

Not every investor will want a 12 percent to 14 percent rate of return, Fleck said.

“Each investor group has their own requirements for investments,” he said.

“That’s going to be an issue that is going to be across the board regardless of where the effort is located.

“I had discussions with other entities that talked about what for them was a very small rate of returns,” he said.

They were eyeing “social engagement investments,” Fleck said.

“There are all types of investments out there.

“Our challenge is to make sure we can address their inquiries or questions or concerns they have and highlight good projects that can be good investments.”

More information on Opportunity Zones is available at tinyurl.com/PDN-EmeraldCoast.

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