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HB 929

March 8, 2022

TO: Members of the House Environment & Transportation Committee

FROM: Natasha Mehu, Director, Office of Government Relations

RE: House Bill 929 – Department of Housing & Community Development – Opportunity Zone Fund – Establishment

POSITION: SUPPORT

Chair Barve, Vice Chair Stein, and Members of the Committee, please be advised that the Baltimore City Administration (BCA) **supports** House Bill (HB) 929.

HB 929 will establish the Opportunity Zone Fund as a special, non-lapsing fund, administered by the Maryland Department of Housing & Community Development (DHCD). DHCD will use the fund to provide financial assistance to entities undertaking projects and programs within Opportunity Zones (OZ). The Department will have the authority to sell loans and interests without Board of Public Works approval.

In 2017, Congress created OZs as part of the Tax Cuts & Jobs Act passed that year. The OZ program aims to spur private investment in distressed communities through the provision of federal tax incentives. Governors designated OZs from among census tracts within their states; the vast majority of qualifying census tracts have poverty rates over 20% or median incomes at or below 80% of the regional average.¹ Investments flow to OZ projects through investment vehicles known as Qualified Opportunity Funds (QOF).² When a QOF invests in real estate projects or operating businesses located in an OZ, the federal government defers and partially reduces taxes on reinvested capital gains and forgives taxes on new capital gains.

¹ N.A. (n.d.). “Opportunity Zones: What Cities Should Know.” *National League of Cities: Center for City Solutions*. Retrieved 2 Mar. 2022 from: https://www.nlc.org/wp-content/uploads/2019/11/CSAR_OpportunityZone_v10.pdf.

² N.A. (n.d.). “Opportunity Zones Frequently Asked Questions.” *Internal Revenue Service*. Retrieved 3 Mar. 2022 from: <https://www.irs.gov/credits-deductions/opportunity-zones-frequently-asked-questions>.

States and localities use OZs to maximize equitable investment in low-income communities. Maryland DHCD has stood up programs to encourage growth in OZs. In 2021, the Department's Neighborhood BusinessWorks Program awarded grants to support the expansion of companies in OZs around Maryland.³ The BCA has worked to encourage investment in Baltimore City's 42 OZ Census Tracts through its economic development agency, the Baltimore Development Corporation (BDC).⁴ BDC's OZ Coordinator collects and shares information about Baltimore's OZs and projects and connects companies and developers with QOFs.

BDC has found that QOFs welcome the participation of State and City funds as co-investors in OZ projects; QOFs are more likely to invest if the State and the City participate. This bill would increase State participation in an OZ project and make Maryland more competitive in attracting investment from QOFs.

The establishment of the non-lapsing Opportunity Zone Fund proposed by HB 929 will make the State's involvement in Opportunity Zone real estate and business development sustainable and permanent. This will support the efforts of local jurisdictions and encourage investment by Qualified Opportunity Funds in projects in underinvested communities. Since all counties throughout Maryland have Opportunity Zones, all jurisdictions stand to benefit from the establishment of this program.

We respectfully request a **favorable** report on House Bill 929.

³ Kinnally, Kevin (30 Aug. 2021). "Hogan Announces New Opportunity Zone Microgrants." *Maryland Association of Counties*. Retrieved 2 Mar. 2022 from: <https://conduitstreet.mdcounties.org/2021/08/30/hogan-announces-new-opportunity-zone-microgrants/>.

⁴ N.A. (n.d.). "Opportunity Zones." *The Baltimore Development Corporation*. Retrieved 1 Mar. 2022 from: <http://baltimoredevelopment.com/opportunity-zones>.