

HOMES JOBS COMMUNITY



*NDC Washington
Webinar Series*

Opportunity Zones Implementation

*Presented by: Jane Campbell & Ken Baker
w/ Kenan Fikri, EIG & Chuck Depew, NDC
July 27, 2018*



H.R.1 was signed into law by President Trump on December 22, 2017. The sweeping Tax overhaul legislation included provisions from S.293 Investing in Opportunity Act.

- Sponsor: Sen. Tim Scott
- Original cosponsor: Sen. Cory Booker
- House sponsors: Rep. Pat Tiberi (R-OH), Rep. Ron Kind (D-WI)
- 14 bipartisan Senate cosponsors
- 81 bipartisan House cosponsors (H.R. 828)



"Unpacking the Investment in Opportunity Act"

with special guest

Shay Hawkins, Tax Staffer – Senator Tim Scott



January 24, 2018

Live recording can be found [HERE](#).

Presentation: [Unpacking the IIOA](#)

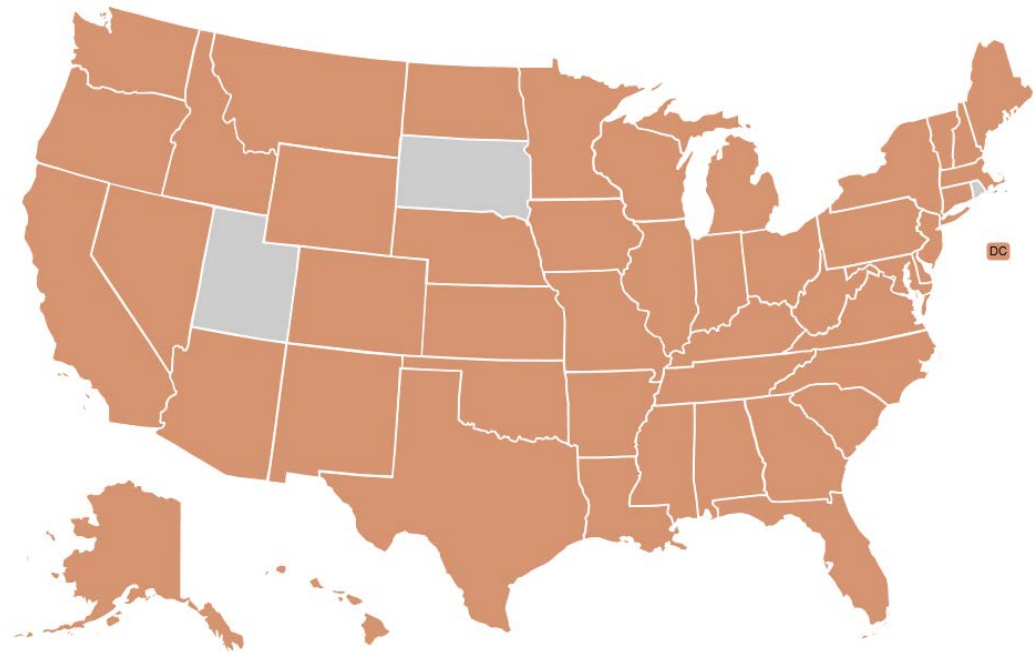
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Opportunity Zone Classification and Resource Map



EIG OZ Resources

- All 50 states have designated their OZ's and certified by Treasury. *
- List of designated Qualified Opportunity Zones (QOZs): This spreadsheet was updated **June 14, 2018**, to reflect the final QOZ designations for all States.
- For a **map** of all designated QOZs, [click here](#)



Kenan Fikri

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Kenan Fikri is the Director for Research at the Economic Innovation Group, where he manages a research program that aims to better understand how the U.S. economy is evolving and what it means for people and places. Prior to joining EIG, Fikri worked with a team of leading economic development thinkers and practitioners at the Brookings Institution's Metropolitan Policy Program. Fikri has also served as a consultant on competitive cities with The World Bank.

Fikri obtained his Master's Degree in Local Economic Development from the London School of Economics and his Bachelor's in International Relations and Economics at American University.

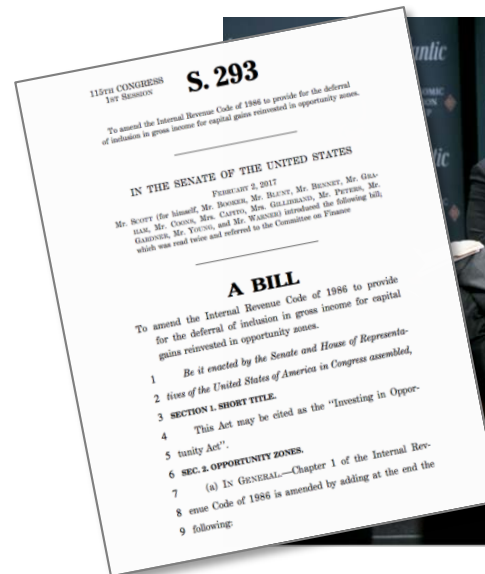
Opportunity Zones are an innovative, flexible, and bipartisan solution for catalyzing private sector-led economic growth.



Opportunity Zones were established by Congress in the Tax Cuts and Jobs Act of 2017.

The new provision is based on the bipartisan *Investing in Opportunity Act*, which was championed by Senators Tim **Scott** (R-SC) and Cory **Booker** (D-NJ) and Representatives Pat **Tiberi** (R-OH) and Ron **Kind** (D-WI) and attracted more than 100 bipartisan cosponsors.

EIG originally developed the concept in a 2015 working paper authored by **Jared Bernstein** and **Kevin Hassett**.



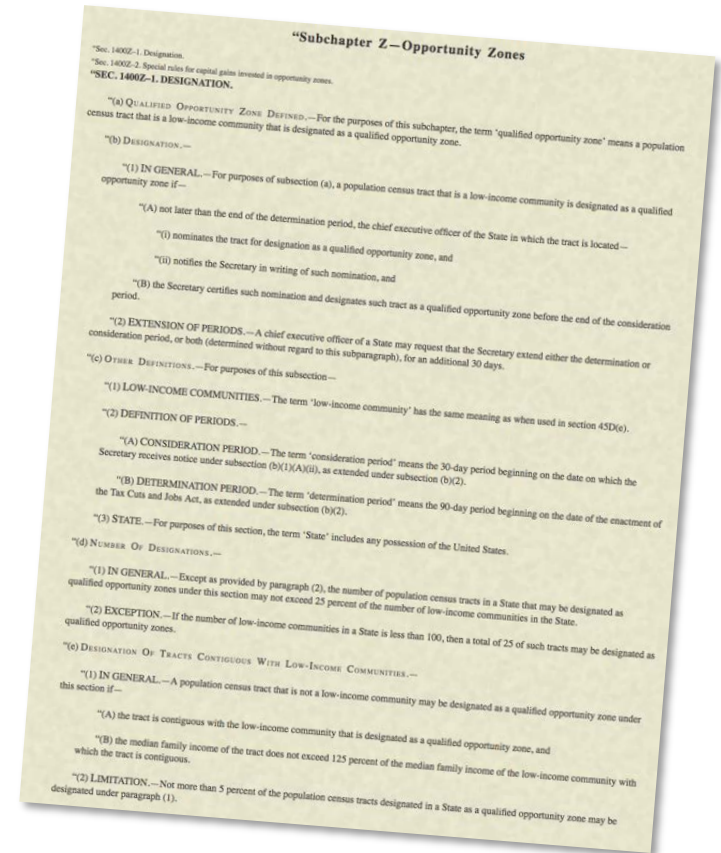
Opportunity Zones will help connect low-income communities with much-needed capital.



Capital – U.S. households and corporations were sitting on an estimated **\$6.1 trillion** in unrealized capital gains at the end of 2017.



Connect – Opportunity Zones offer a frictionless way for investors to dedicate all or a portion of their winnings to seeding the next generation of enterprise in distressed communities all across the country. In exchange, investors get a graduated series of federal tax incentives tied to **long-term holdings**.



What are the incentives for investors?

Opportunity Zones offer investors three incentives for putting their capital to work in economically distressed communities:



Temporary
Deferral

1. A **temporary deferral**: An investor can defer capital gains taxes until 2026 by rolling their gains directly over into an Opportunity Fund.



Step-Up
In Basis

2. A **reduction**: The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.



Permanent
Exclusion

3. An **exemption**: Any capital gains on subsequent investments made through an Opportunity Fund accrue *tax-free* as long as the investor stays invested in the fund for at least 10 years.

There are three major components to Opportunity Zones:



Investments – Opportunity Funds make equity investments in businesses and business property in Opportunity Zones.



Funds – Opportunity Funds are investment vehicles organized as corporations or partnerships for the specific purpose of investing in qualified in Opportunity Zones.



Zones – States and territories designated 25 percent of their eligible low-income census tracts as Opportunity Zones.

What assets are eligible for investment?

There are three types of property eligible for Opportunity Fund investment:



Stock of a qualified opportunity zone **corporation**



Partnership interest in a qualified opportunity zone partnership



Business property used in qualified opportunity zones

- A qualified opportunity zone business must use “**substantially all**” of its tangible property within a zone and meet a few additional basic tests.
- Investments that **do not** qualify include funds-of-funds, sin businesses, and financial institutions.
- A **substantial improvement** test applies unless the business property is original use.

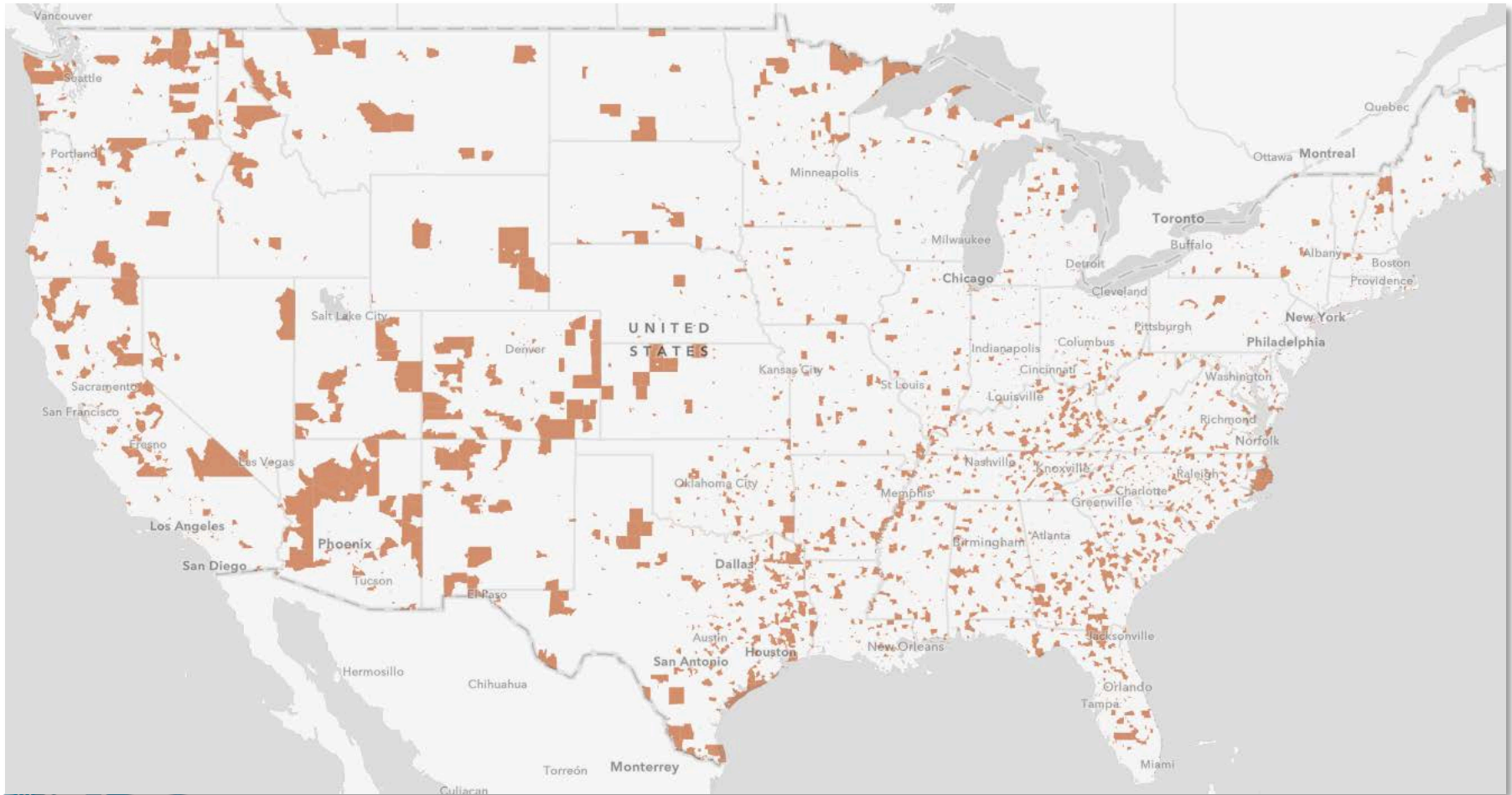
How do Opportunity Funds work?

- Opportunity Funds are the critical intermediaries of investment into zones. To benefit from the incentive, **must be made through an O-Fund**.
- O-Funds must invest at least **90% of their assets** in qualified opportunity zone investments and will be tested twice yearly to ensure compliance.
- The private sector and other stakeholders **are responsible for establishing O-Funds**.
- O-Funds will come in **many shapes and sizes**:
 - Some will invest nationally, others locally. Some will have many investors, others few.
 - Some will specialize in startups, others in housing, and others will diversify across many different asset types.
 - Some will be closely-held by investors, others will have professional managers.
 - Some may form around a single project, others will develop portfolios.
- Funds will have to **self-certify** and do not need pre-approval before investing.

- ✓ **Flexibility:** Low income communities come in many different shapes and sizes and all have different needs. This tool is capable of supporting a variety of mutually reinforcing activities within the same community.
- ✓ **Scalability:** There is no statutory cap on the amount of capital that can flow into Opportunity Zones in any given year. As such, this tool has the potential to help fuel economic renewal on an national scale.
- ✓ **Simplicity:** Opportunity Funds do not compete for fixed allocations of public sector financing and, as a result, do not require pre-approval of their of their investments. This should lower the cost, time, and risk to business transactions, and encourage broad participation.

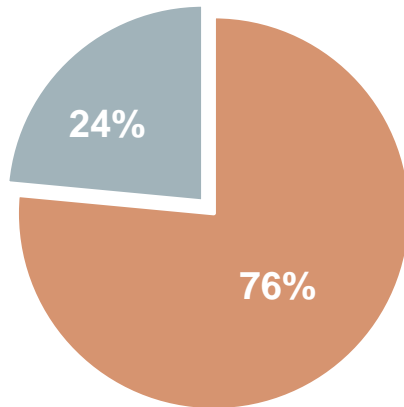
Opportunity Zones: the map comes into focus

Over 8,700 census tracts across all U.S. states and territories are now certified Opportunity Zones.



A profile of the country's new map of Opportunity Zones

¾ of Opportunity Zones lie within metro areas



- Metropolitan
- Non-Metropolitan

10 percent of the country's population resides within a zone



31.3 million residents

35.0 million including Puerto Rico and the other territories

There's a strong foundation on which to expand



1.6 million business establishments



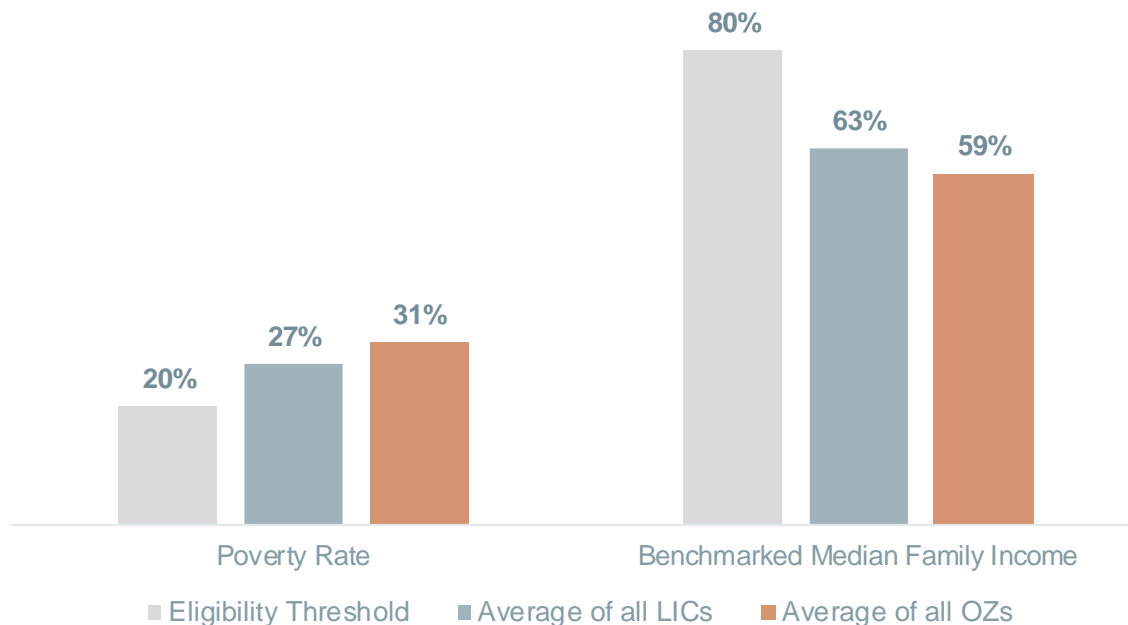
24 million jobs

Opportunity Zones surpassed baseline eligibility requirements for economic need.



- Almost **70 percent** of the population in Opportunity Zones resides in a census tract that is **“severely distressed”** according to the CDFI Fund, meaning in a community with especially high poverty or unemployment rates, or especially low median family incomes.

Poverty Rate and Median Family Income in the Average Opportunity Zone



Zones reflect congressional intent to stimulate economic activity in communities that need a boost.



50 years

the **median home** is over a decade older in Opportunity Zones than it is nationally

38%

of resident adults were **not working**, 10 points above the national rate

<4%

of tracts experienced rapid **socioeconomic change** (a proxy for gentrification) since 2000

Opportunity Zones will help finance a diversity of investments in urban, rural, and suburban areas alike.



Startups



Housing



**Commercial
Developments**

Opportunity Zones will help finance a diversity of investments in urban, rural, and suburban areas alike.



Innovation Districts



**Brownfield
Redevelopment**



Energy Assets

How are things likely to proceed from here?



2018

- ✓ Zones certified and final map in place
- Q3-Q4: Early-mover funds form and capitalize
- October: IRS releases O-Fund self-certification form
- Q4: IRS/Treasury release further guidance



2019

- Bulk of funds form and capitalize
- Investment starts to flow



2020 and 2021

- Funds begin to invest at scale
- Funds reach 90 percent thresholds
- Investors continue to pile on in advance of the 2021 deadline to get the 5-year step-up by 2026
- First real picture of impact takes shape



Capital alone is *not* a strategy.

Opportunity Zone investment is not guaranteed.

- Local stakeholders need to work together to facilitate the emergence of an **ecosystem** of investors, investees, fund managers, and partner organizations.
- Stakeholders—especially states—should consider what resources can be **aligned** in support of Opportunity Zones and how they can **further de-risk** the most needed types of investment into zones.
- What are you doing to make sure this **unlocks startup and expansion capital** for new ventures?

Now is the time to refine and augment your inclusion agenda.

- Funds, philanthropies, state and local government, non-profits, and other civic partners will have to work hard and together to **make sure that investment translates into jobs and opportunities** for Zone residents. The good news: Investor behavior is about to move from headwind to tailwind.
- Local governments in particular also need to **prepare for success**: What potential impacts of a capital influx do you need to get ahead of?

OPPORTUNITY ZONES: A NEW INCENTIVE FOR INVESTING IN LOW-INCOME COMMUNITIES

A moment for local leadership:

- The map is set. It is time to mobilize in the Opportunity Zones.
- State and local governments can lead by:
 - Convening stakeholders and key constituencies including anchor institutions
 - Engage the local community to determine its needs and develop an investment plan for the zone
 - Promoting inclusive and equitable economic growth for existing residents and businesses by aligning existing incentives and infrastructure investments in support of expanding access to opportunity
 - Implementing protections that prevent displacement
 - Incenting investments geared toward high social benefit

OPPORTUNITY ZONES: A NEW INCENTIVE FOR INVESTING IN LOW-INCOME COMMUNITIES

Key tools for Local Government:

- Land Use: Address land use zoning as a means to protect/preserve affordable “commercial workspaces & locations.”
- Planning: Local governments’ proactive participation in negotiating redevelopment plans designed to prevent displacement of micro and/or small businesses.
- Knowledge: Conduct economic impact assessments that measure the value of business services to a city’s resident base
- Social Impact: – Small businesses are often more than service providers, they are social supports particularly for lower income communities
- Incentives and Community Investment:– Economic incentives from Tax Increment Financing, Community Development Block Grant investment, Infrastructure development, Workforce Training and others contribute to creating stronger communities

OPPORTUNITY ZONES: A NEW INCENTIVE FOR INVESTING IN LOW-INCOME COMMUNITIES

Policies and tools that help prevent displacement of residents and businesses:

- Inclusionary zoning
- Linkage fees
- Local hiring requirements
- Property tax relief
- Preservation – specifically buying unregulated, rent-
 - Stabilized (i.e. naturally occurring) affordable housing
- Prevention –
 - Tenant protections: eviction prevention, rent controls and tenant first-right-of-refusal policies
 - Rapid re-housing
- Community land trusts; land banks
- Housing trust funds

OPPORTUNITY ZONES: A NEW INCENTIVE FOR INVESTING IN LOW-INCOME COMMUNITIES

Examples:

- California - [AB3030](#) would add projects financed by Opportunity Funds to list of those exempt from the California Environmental Quality Act
 - Are there regulatory barriers that can be eased for investments targeted to socially-minded projects?
- States currently considering preferential treatment of state capital gains in Opportunity Zones
 - Can state and local governments incent investment in desired projects and keep dollars locally invested by providing preferential tax treatment at state-level?
- Missouri - [SB590](#) modifies state Historic Preservation Tax Credit
 - Are there other state tax credits – such as a state-funded LIHTC, state historic tax credit or other than can be paired with social minded projects?

Chuck Depew

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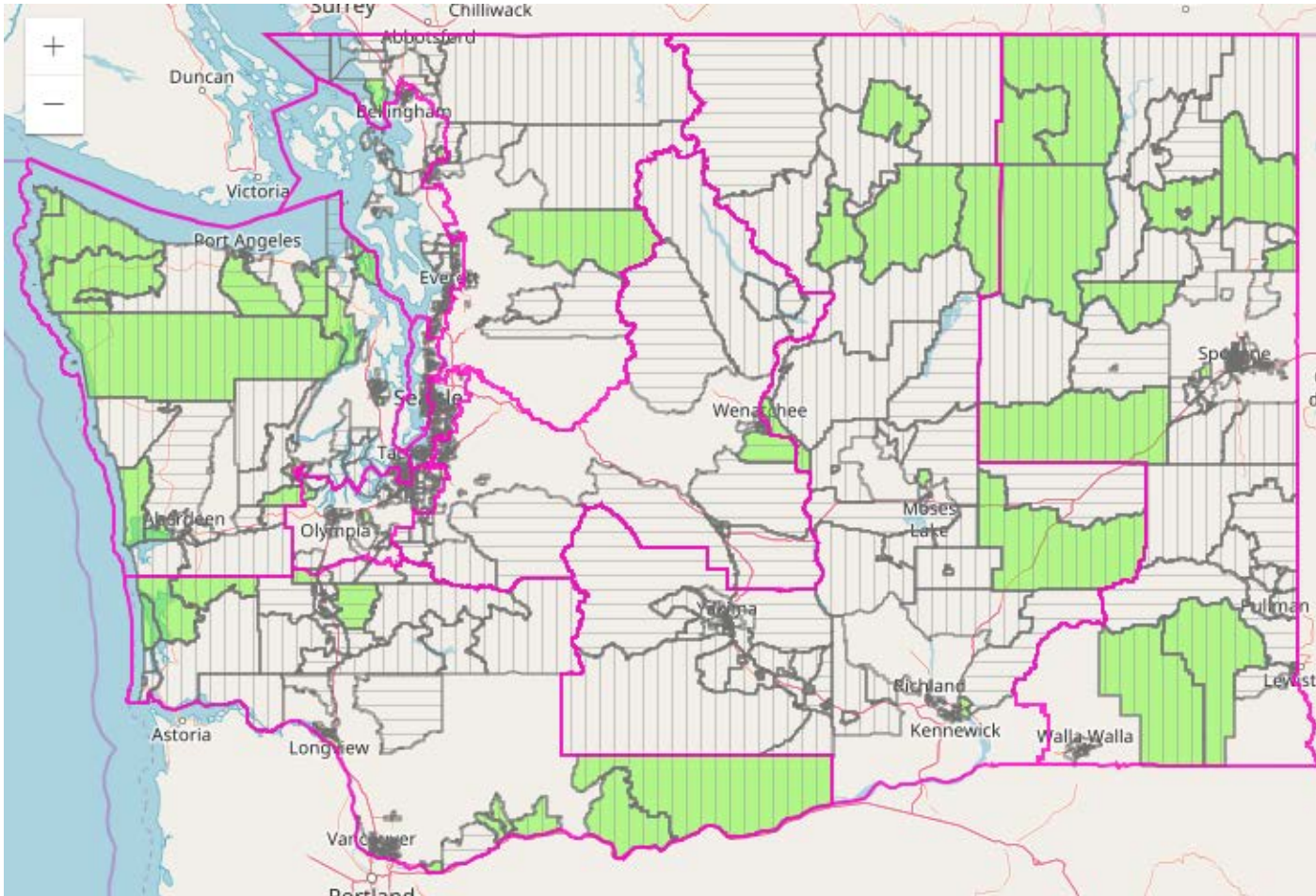
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Chuck Depew is West Team Leader for the National Development Council, a national non-profit that provides economic and community development assistance to local governments. For almost 50 years NDC has worked with local jurisdictions on multiple housing and economic development efforts. Chuck provides technical assistance in project finance, development negotiation and housing finance to communities throughout the Northwest, including Utah and Wyoming and Northern California. In addition, he teaches commercial and housing real estate finance nationwide in NDC's leading training program. Prior to his tenure at NDC, Chuck was Deputy Director of the Office of Economic Development for the City of Seattle. He has over 30 years of experience in public finance, housing, economic and community development.

Mr. Depew has a Bachelor's degree in Environmental Planning from the University of California, at Santa Cruz; and a Master's degree in Urban Planning from the University of Washington.

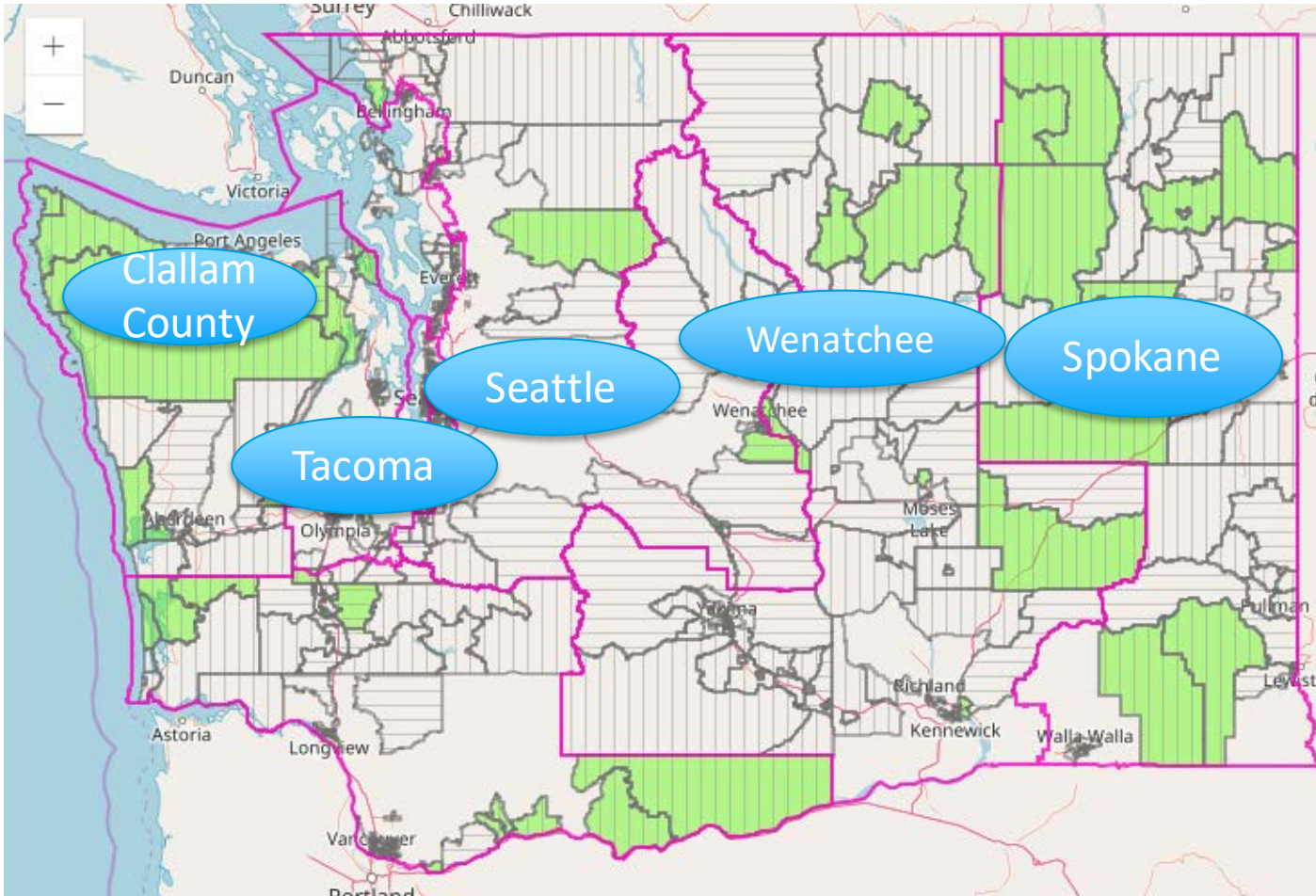
Opportunity Zone Listening Session

WASHINGTON OPPORTUNITY ZONES



Opportunity Zone Listening Session

WASHINGTON OZ LISTENING SESSIONS



Opportunity Zone Listening Session

THE BASICS

Provides tax incentives for investors to re-invest unrealized capital gains by:

- Temporary tax deferral for capital gains
- Tax reduction on capital gains (at 5 and 7 years)
- Elimination of taxes on gains from OZ investments (if held for 10 years)



Opportunity Zone Listening Session

HOW IT WORKS

Individual invests capital gains into Opportunity Funds

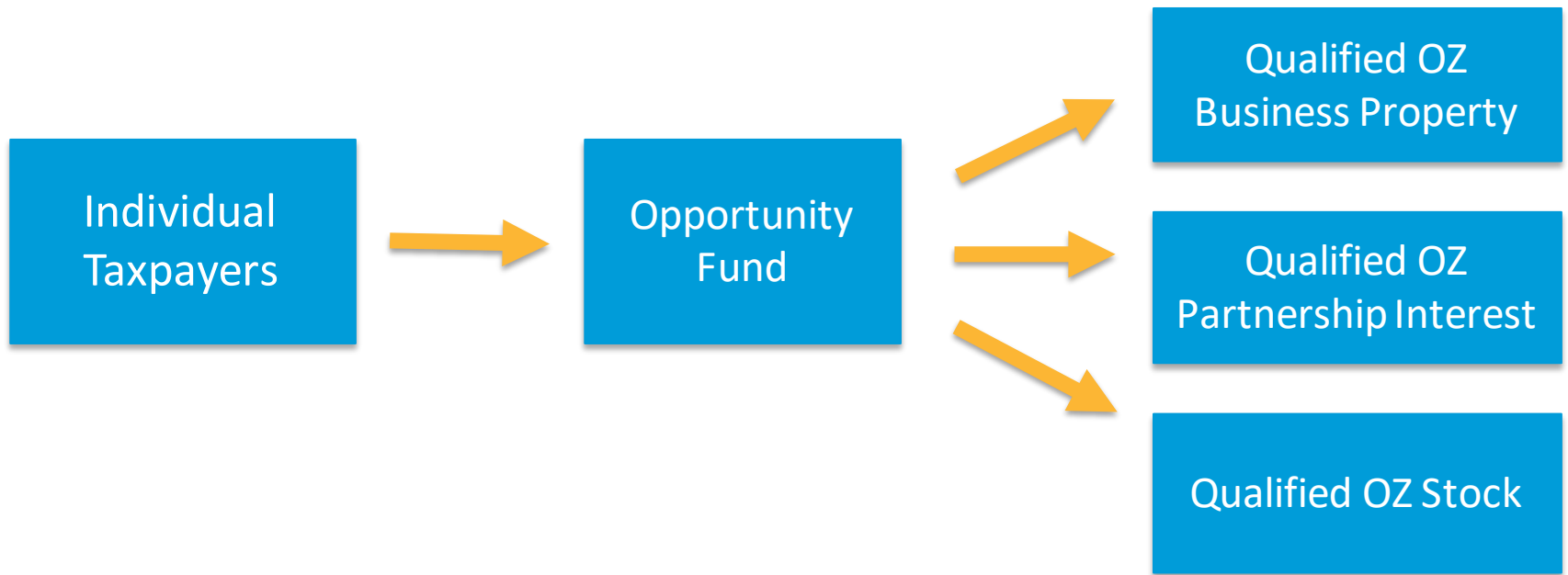
Opportunity Fund invests in qualified Opportunity Zone investments

Qualified investments include:

- Stock or partnership interest in operating business in OZ
- Qualifying property in OZ

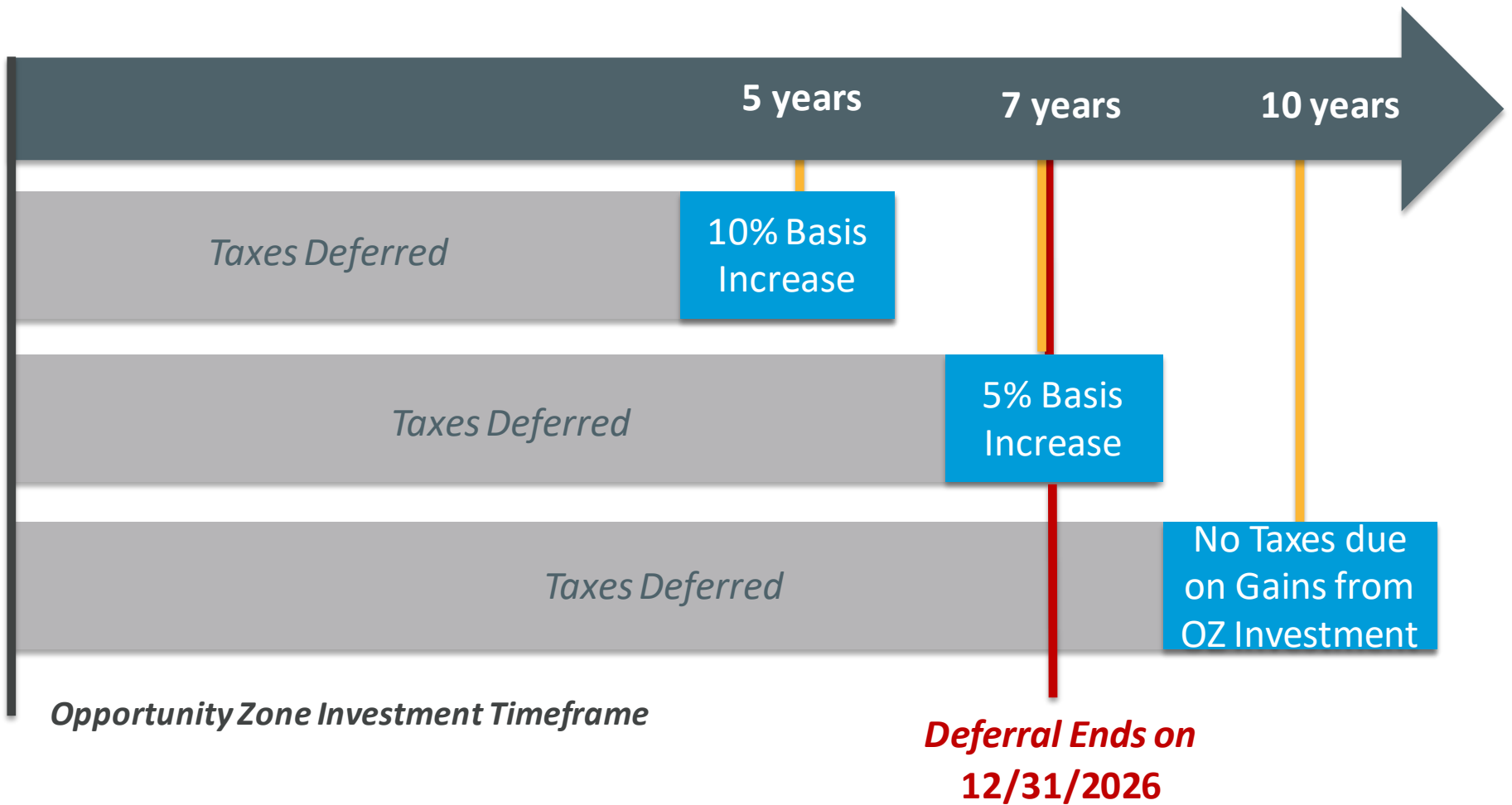
Opportunity Zone Listening Session

HOW IT WORKS



Opportunity Zone Listening Session

TAX BENEFITS



Opportunity Zone Listening Session

INVESTMENT EXAMPLE

**Investor has an Investment
Subject to Federal Capital
Gains Tax**

Investment Amount	\$500,000
Capital Gains Rate	23.80%
Capital Gains Tax Owed	\$119,000

**Invests in Real Estate – Businesses
Located in Designated
Opportunity Zones**

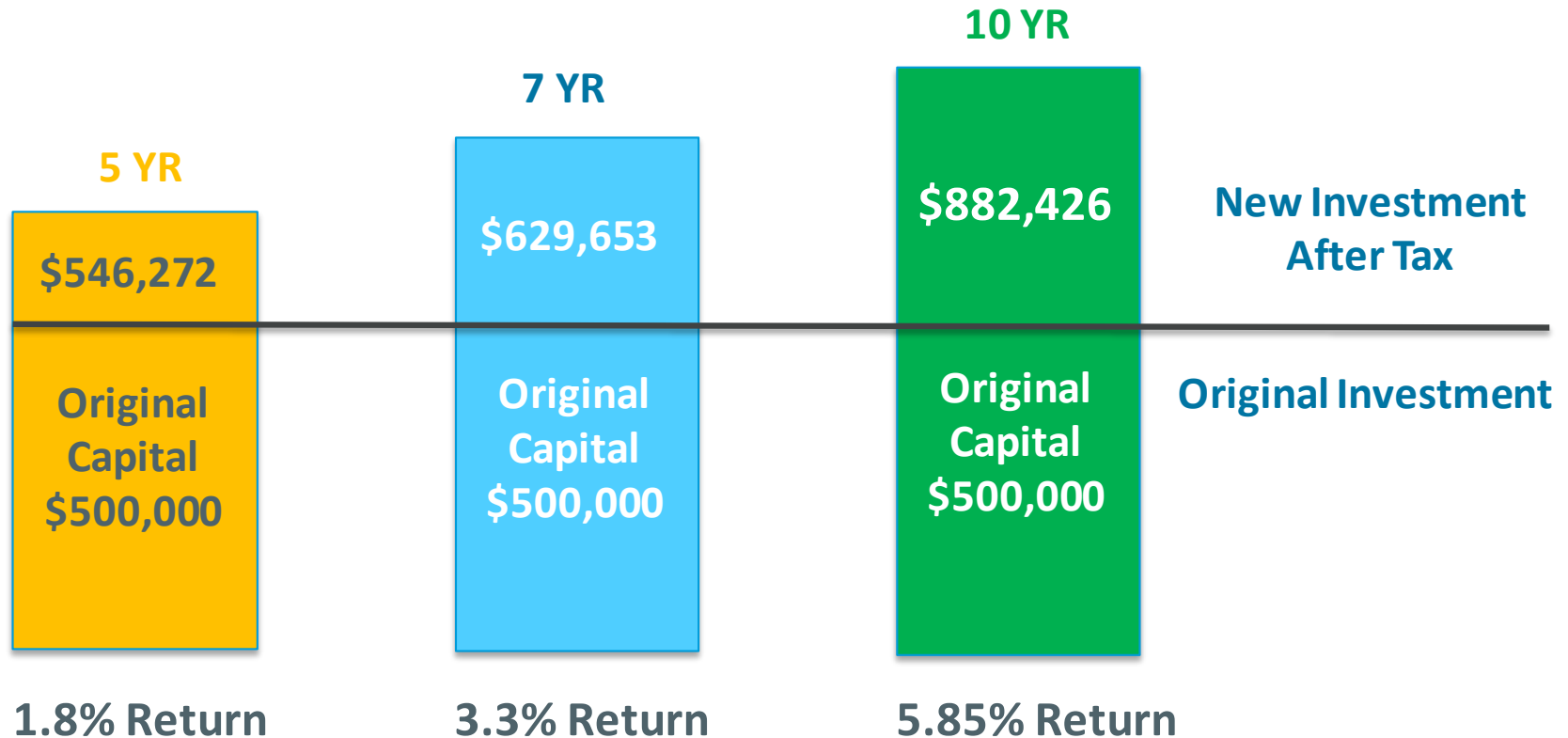


Investor wants a 7% Return

Opportunity Zone Listening Session

INVESTMENT EXAMPLE

Investor Summary



Opportunity Zone Listening Session

NEXT STEPS

Local communities to organize, identify projects, and engage investors

Communities and organizations to advocate for community benefits

Generate Financial Models for Range of Investment Classes – Real Estate, Business, Public Facilities

Treasury and IRS to issue technical rules and guidance to give investors more clarity

Washington Update

- **August Recess Looming**
 - House will recess July 27th – Sept 3rd, 2018
 - Senate new proposed August Calendar – TBD
- **11 Full legislative days to pass Government Funding Legislation before new fiscal year Oct.1, 2018**
 - Bipartisan Budget deal is retroactive 2 year deal for FY 18 and FY 19
 - POTUS may veto spending measure for funding for southern border wall
 - House has passed all 12 appropriation bills
 - Senate has not – remember spending bills need 60 votes in Senate, thus have to have bipartisan support. (51-49 GOP Majority)
- **Tax Reform 2.0**
 - House Ways and Means Chairman Kevin Brady (R-TX) released a framework outlining key goals for tax legislation he intends to introduce this Fall as a follow up to the tax reform legislation enacted in December, 2017. The bill, commonly referred to as "Tax Reform 2.0," would ...
 - Make permanent individual and small business tax rates enacted on a temporary basis in the 2017 bill, encourage retirement and other types of savings vehicles, and provide tax write-offs to start-up businesses.

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