Opportunity Zones
Lynchburg Seminar

January 22, 2019

Today's agenda

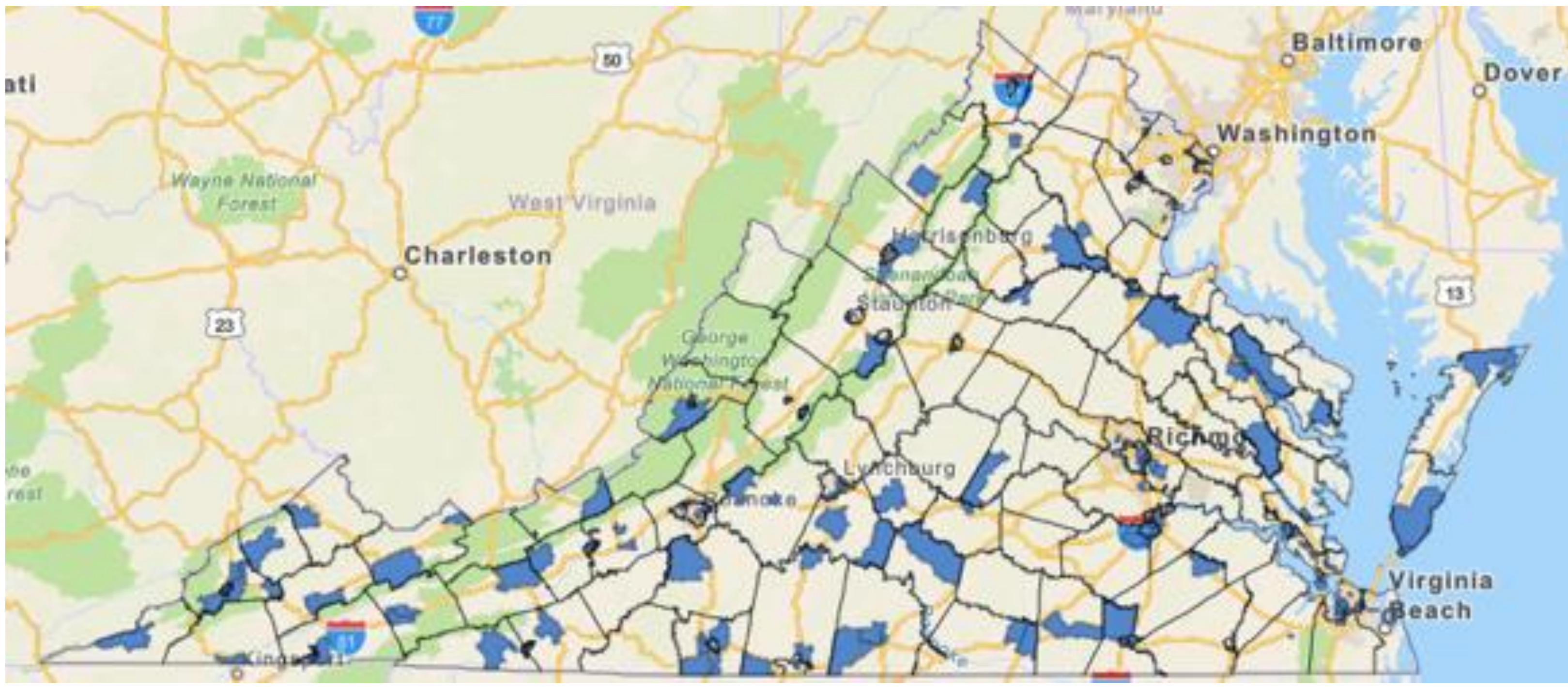
- What do you need to know?
- Where are we today?
- How to ensure this delivers?

Passage of the Tax Cut & Jobs Act in December of 2017 established the Opportunity Zone tax incentive program

The basics

- Intended to spur economic resurgence, job creation, and wealth building in low income and distressed communities:
  - States designate specific "Opportunity Zones" for investment
  - Investors get tax benefits from investing in the Opportunity Zones via a “Qualified Opportunity Fund” (think 1031 exchange with some steroidal boost)
  - Investment must flow to an “Opportunity Zone Property” in an Opportunity Zone
- First new community development program enacted since the millennium that potentially taps into trillions of dollars in unrealized capital gains
- No community impact requirements for investors or businesses – designed purely to stimulate capital flow

Each state governor designated Opportunity Zones based on qualifying census tracts



Low-income census tracts: individual poverty rate of at least 20 percent and median family income no greater than 80 percent of the area median

+

Contiguous census tracts: median family income does not exceed 125 percent of the median family income of the contiguous tract. Only 5% or less tracts may qualify under this exemption

Total tracts: Up to 25 percent of the total number of census tracts that qualify as an Opportunity Zone can be designated as an Opportunity Zone

- In June, Treasury approved Opportunity Zones in all 50 states, 5 U.S. possessions & the District of Columbia – including 212 in Virginia
- Designations remain in effect for 10 years
- Tracts overlay with other place-based tax credit programs (e.g. NMTC, LIHTC, HTC, Empowerment Zones, etc…)*

*See: Enterprise360 mapping tool for overlays

Financiers get tax benefits from investing in Opportunity Zones via Qualified Opportunity Funds

Key statute parameters for Opportunity Funds

- Organized as a corporation or partnership for purpose of investing in Qualified Opportunity Zone Property
- Self-certified by taxpayer (IRS is expected to release form in next few weeks)
- Must hold at least 90% of assets in Qualified Opportunity Zone Property (computed based on average amounts held as of June 30th and December 31st each year):
    - Per month penalty starting at test failure
    - % shortfall x 4% penalty (federal short term rate + 3%)
    - No penalty if failure shown to be reasonable cause

The program offers three tax incentives to investors over a ~10 year horizon

Deferral

Temporary deferral of capital gains re-invested in a Qualified Opportunity Zone Fund

Investment must flow to Opportunity Zone Fund within 180 days of realization

Must be recognized on the earlier of disposition of the investment or December 31, 2026

Reduction

Step up in basis for capital gains if held for 5 years of 10%

Step up in basis for capital gains of an additional 5% if held for 7 years

Total potential reduction of 15%

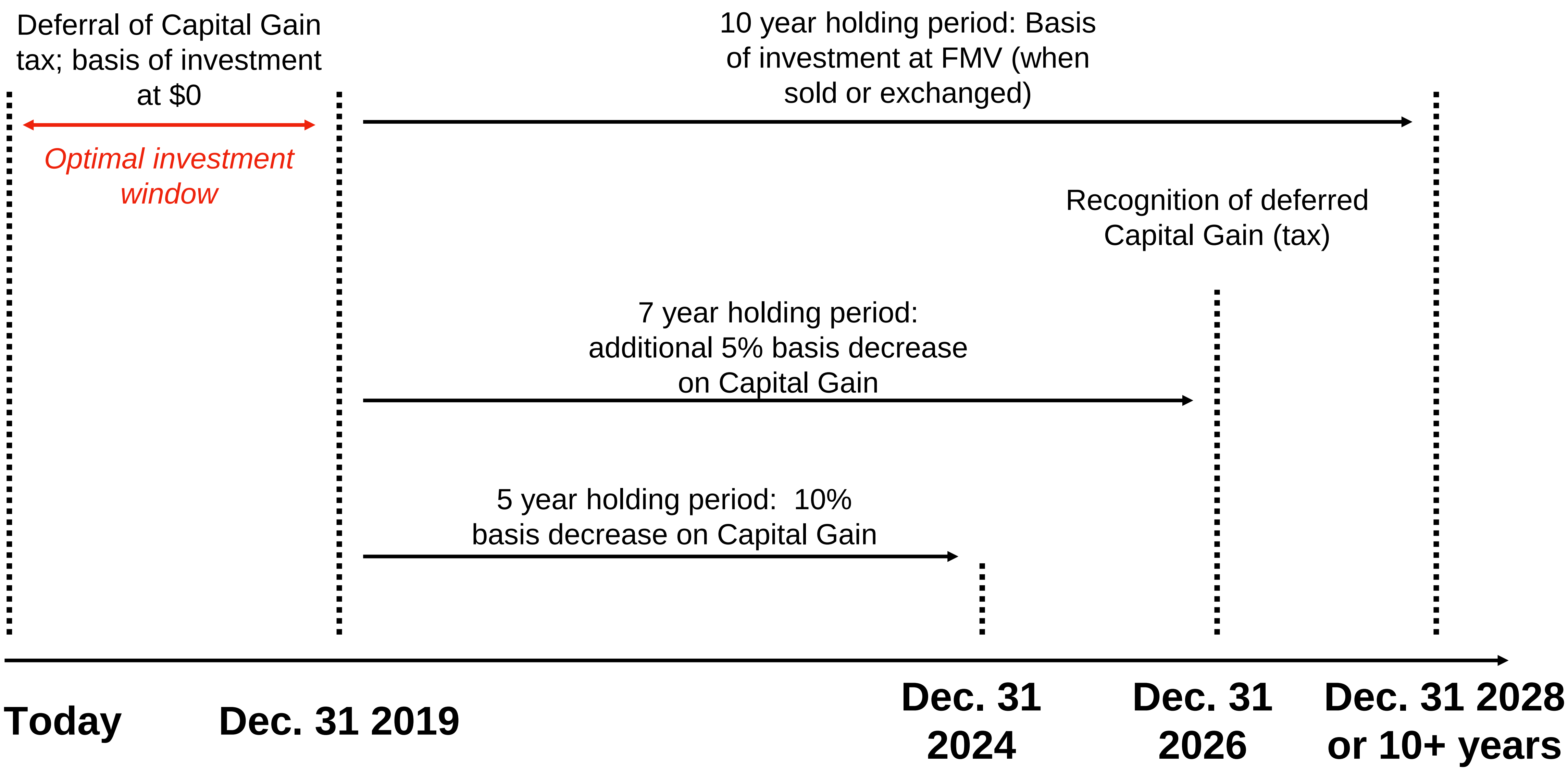
Avoidance

Permanent exclusion of gains from initial investment if held for at least 10 years

Initial investment already taxed on December 31, 2026

Basis of investment at time of sale (after 10 years) is increased to FMV

Per statute, there is a brief window to maximize the financial benefits of the OZ program



Opportunity Zone Funds must invest in Qualified OZ Property

Qualified Opportunity Zone Property

Purchased from an unrelated party (20% standard) with cash after December 31, 2017

Stock

Partnership

Qualified Opportunity Zone Business Property

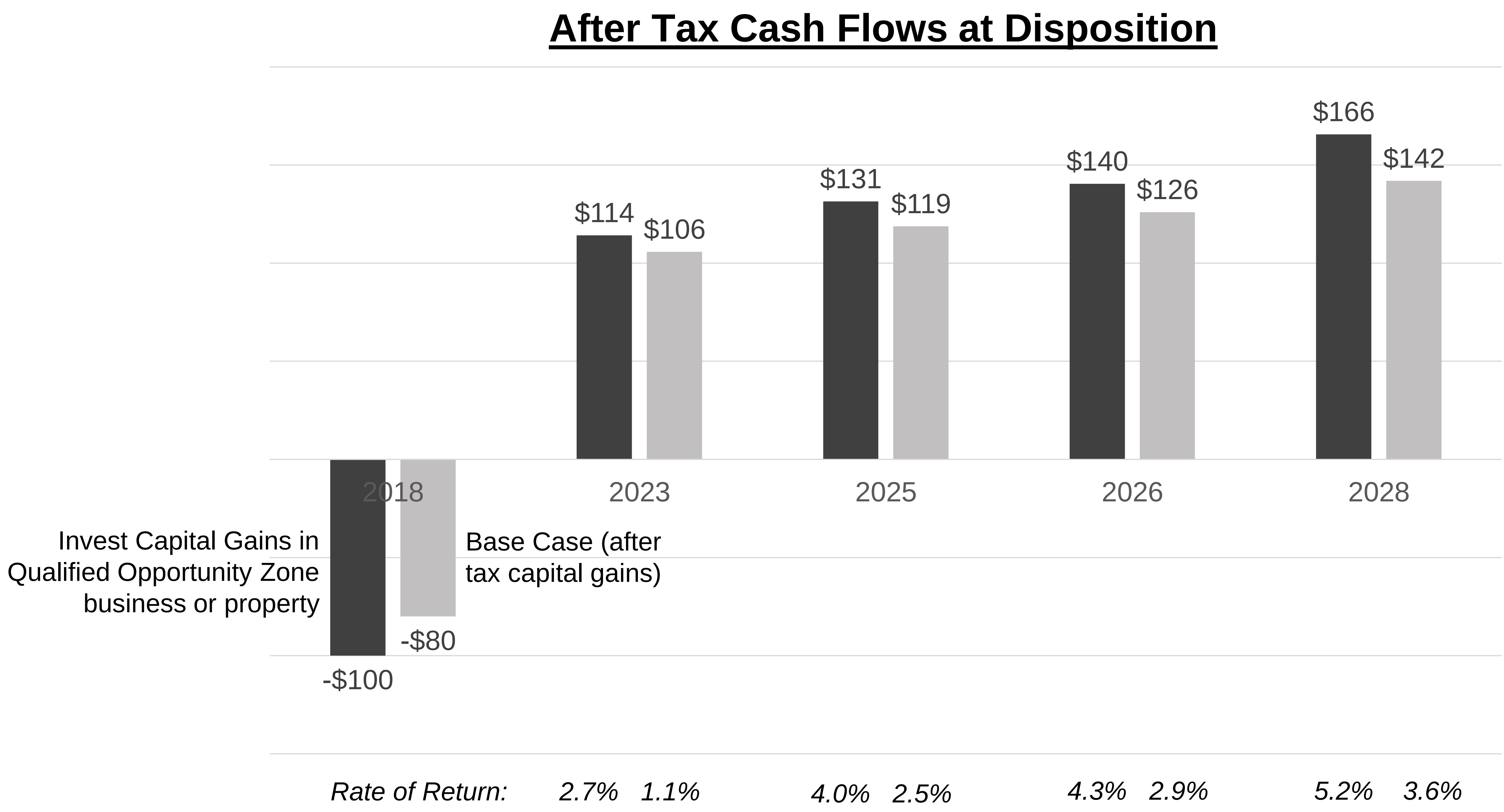
- Tangible property used in a trade or business
- During holding period, substantially all the use is an Opportunity Zone
- Original use of property commences with the related Qualified Opportunity Zone Business **OR** substantially improves the property 30-months after acquisition, with additions to basis exceeding an amount equal to the adjusted basis of property at purchase

Qualified Opportunity Zone Business

- Trade or business in which at least 70% the tangible property owned or leased is Qualified Opportunity Zone Business Property
- During holding period, substantially all the use is an Opportunity Zone
- At least 50% of income derived from active conduct of business
- Substantial portion of intangible property used in active conduct of business
- < 5 percent unadjusted basis of property is nonqualified financial property
- No “Sin Businesses” (golf courses, sun tan facilities, gambling, etc…)

The Opportunity Zone tax incentives offer significant advantages over paying the taxes on gains today

Illustrative



Key Assumptions	
Capital Gains to Invest	$100
Capital Gains Tax Rate	20.0%
Annual Investment Appreciation	7%

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Treasury and the IRS released (proposed) “business-friendly” clarifying rules and regulations

Opportunity Zone Funds:

- Any taxpayers that recognize “capital gain” for federal income tax purposes eligible (Individuals, Trusts, REITs, Corporations, LLCs, etc…)
- Two page self certification IRS form
- 10-year basis step-up election preserved until 2047
- 90% asset test calculated from audited financials or cost basis

Opportunity Zone Business & Property:

- Working capital safe harbor of 31 months
- Land not considered in the calculation of substantial improvement
- ***No*** clarifying guidance regarding “at least fifty percent of annual gross income derived from the active conduct of a trade or business opportunity zone”

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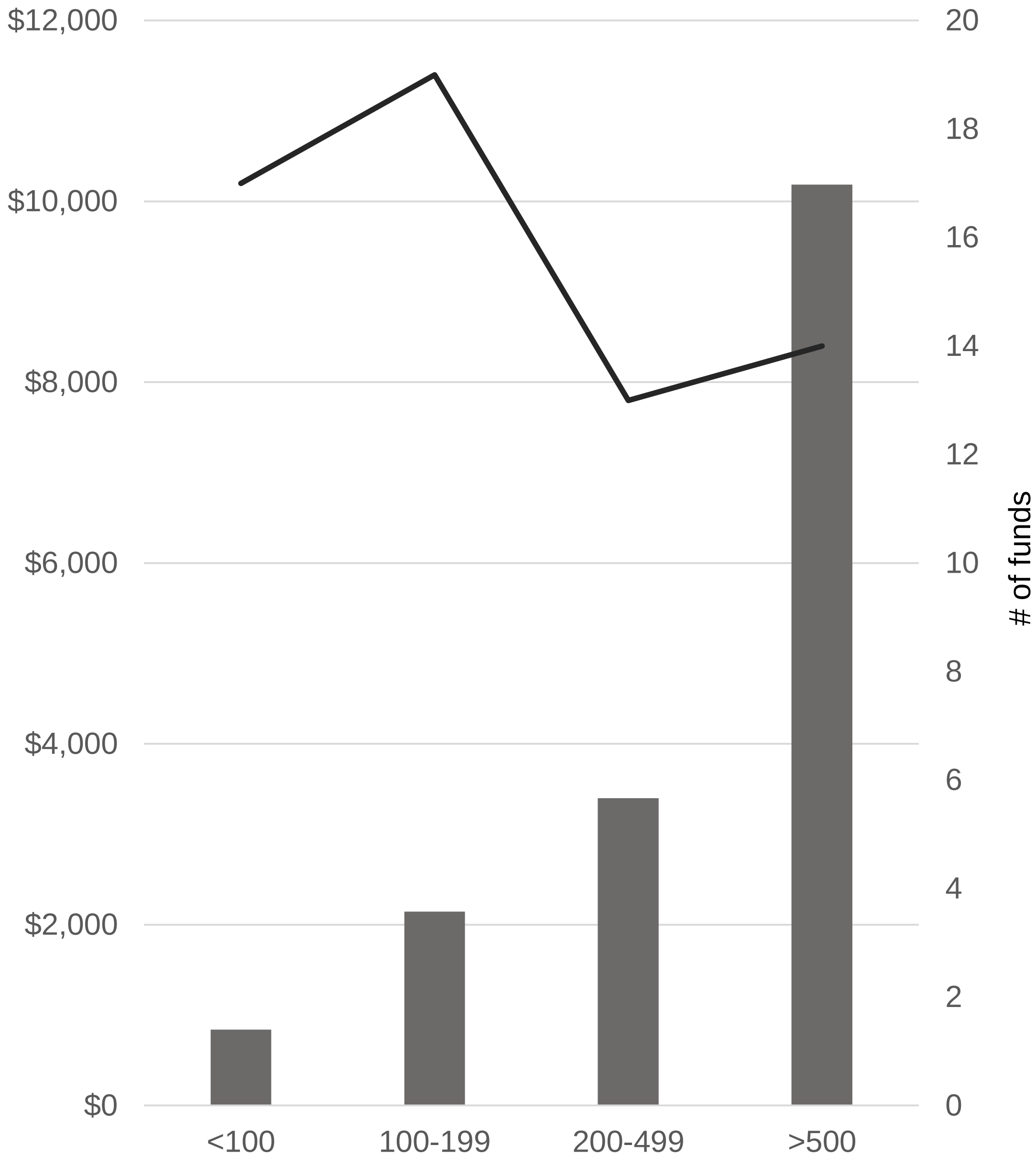
Over 60 funds and >$16B in publicly announced Opportunity Zone capital has accumulating across the country

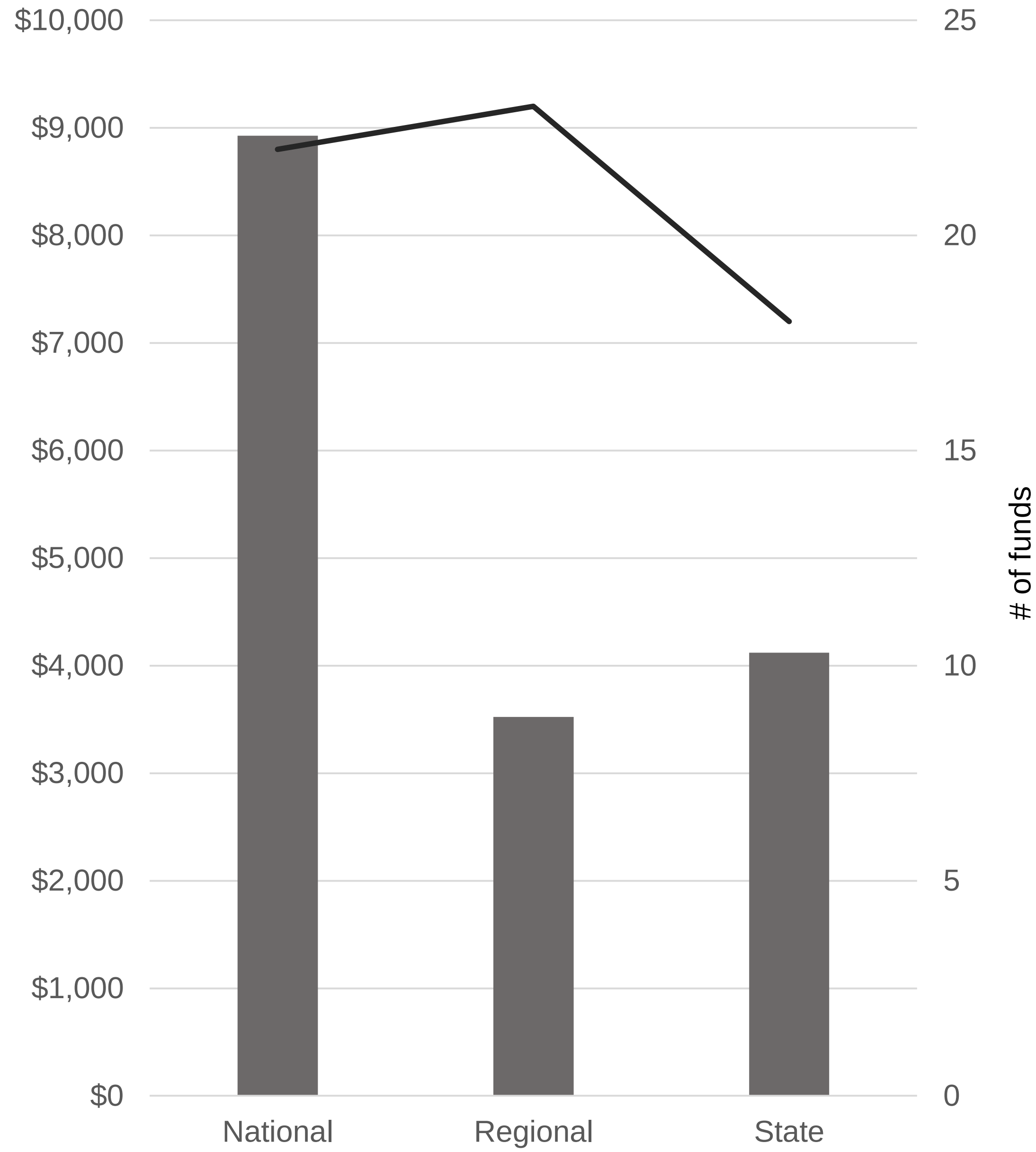
By Fund Size

in millions



By Geography

in millions



Source: *NCSHA Opportunity Zone Fund Directory, as of January 2019*

States, regions, and localities are taking leadership roles

Oregon

Philanthropy led:
- Ford Family Foundation
- Oregon Community Foundation
- Meyer Memorial Trust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Oregon Opportunity Zone Initiative

AUG, 2018

MEMBERS INVOLVED

The Oregon Community Foundation →

Meyer Memorial Trust →

The Opportunity Zone (OZ) Program is a new tax incentive within the Tax Cuts and Jobs Act of 2017, intended to spur long-term investments in low-income census tracts in the U.S. The new law allows investors to place unrealized capital gains from the sale of an asset into Opportunity Funds (O Funds) that invest capital into designated OZs. The greatest tax benefits would go to investors who invest for 10 or more years.

As the OZ program moves from idea to implementation, foundations are playing an important role in monitoring and protecting social impact, fostering dialogue, creating space for community-based wealth creation, and working to bring capital to areas of greatest need. Read below about a collaborative project unfolding in Oregon, with the support of The Ford Family Foundation, Meyer Memorial Trust, and Oregon Community Foundation. This project overview was written collaboratively by the three foundations, Mission Investors Exchange, Pilot Management Resources, the Affiliated Tribes of Northwest Indians Economic Development Corporation, and the Mid-Columbia Economic Development District.

To learn more about the program, please see MIE's evolving OZ Library. **If you have a project to share, please fill out**

South Bend, Indiana
Louisville, Kentucky
Oklahoma City, Oklahoma

Municipality developed community investment prospectus including:
- Zone overview
- Anchor institutions
- Local assets
- Marketing strategy

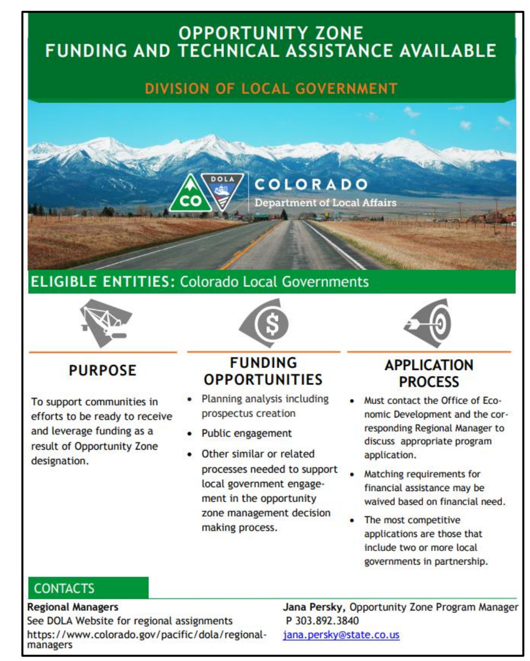
Alabama

Non-profit organization in partnership with state:
- Finding opportunities
- Connecting investors
- Engaging Communities
- Collecting Data

OPPORTUNITY ALABAMA

Colorado

State-provided resources for OZ strategy development in communities, including:
- Templates
- Capacity resources
- Convening


OPPORTUNITY ZONE
FUNDING AND TECHNICAL ASSISTANCE AVAILABLE

DIVISION OF LOCAL GOVERNMENT

CO DOLA COLORADO Department of Local Affairs

ELIGIBLE ENTITIES: Colorado Local Governments

PURPOSE

To support communities in efforts to be ready to receive and leverage funding as a result of Opportunity Zone designation.

FUNDING OPPORTUNITIES

- Planning analysis including prospectus creation
- Public engagement
- Other similar or related processes needed to support local government engagement in the opportunity zone management decision making process.

APPLICATION PROCESS

- Must contact the Office of Economic Development and the corresponding Regional Manager to discuss appropriate program application.
- Matching requirements for financial assistance may be waived based on financial need.
- The most competitive applications are those that include two or more local governments in partnership.

CONTACTS

Regional Managers
See DOLA Website for regional assignments
https://www.colorado.gov/pacific/dola/regional-managers

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Opportunity Zones are generating lots of energy, but significant challenges exist

Opportunity Zone investments will be in high demand

- Plenty of Opportunity Zone capital will be available – from national scale banks & private equity to local high net worth individuals & families
- Outside of large, urban-centric real estate pipeline, shovel-ready project demand is not prepared for the Opportunity Zone capital inflow
- Without Treasury or legislative intervention, the investment window will be short

Community-focused financing activity is slower to develop

- Lagging Opportunity Zone energy and knowledge in the communities themselves
- Outside investors & business interests lack understanding of scale, prospects & challenges in the Opportunity Zones
- Rural Opportunity Zone tracts and non-real estate businesses getting relatively minimal attention
- Primary focus on financial returns rather than community revitalization and wealth generation

Immature investment ecosystems hinder efficient capital flow

- Established market-places of business interests and investors largely do not exist in the Opportunity Zones
- Plenty of players wanting to engage and spur activity (philanthropy, economic development, CDFIs, local government, etc..), but lack connective tissue
- Access to full range of capital including, equity, debt, grants, tax incentives, etc… not readily available

Without the right leadership and alignment, Opportunity Zone communities risk missing the full potential

Big Market Driven Deals

- Urban centered large projects
- Real-estate focused
- At or above market rate return
- Ready-to-go
- Experienced project sponsors
- National and/or market-focused local money
- May or may not have social impact overlay

Smaller Market Activity

- Small or medium projects in smaller urban and rural areas
- Health, job, housing, education focused
- At or below market rate return
- Requires assistance
- Less experienced sponsors
- Social impact and philanthropic investors
- Likely highly community aligned

Establishing OZ market-places will address the impediments and unlock the fully range of investing

Opportunity Zone Market-Places

Provide a real & virtual place for stakeholders to engage

- Signal community is “open-for-business”
- Identify and vet potential businesses, investors, enablers, and intermediaries
- Educate and provide programmatic and locally relevant information
- Convene and build energy, enthusiasm, and relationships
- Align constituents on local community needs and investment focus areas

Build community project pipeline

- Inventory and vet potential investments
- Ensure projects build prosperity and improve quality of life improvement in the communities
- Gather additional incentives (e.g.: technical assistance grants, PRIs, tax relief, infrastructure improvement commitments)

Attract full range of investors

- Inventory pool of investors (local and national) and preferences (asset classes, geography, return expectations)
- Build an investment “prospectus” or ”pitch book”
- Market community project pipeline
- Create mechanism to link national and local investors with social impact projects

Enable and monitor progress in the community

- Track deals and intended outcomes
- Set and report social impact results
- Inform community and policy advocacy groups
- Reduce transactions costs
- Push localities to fast-track project bureaucracy (zoning, permitting, etc.)

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Questions?