

HOW OPPORTUNITY ZONES CAN BENEFIT CHARTER SCHOOLS

FEBRUARY 2019

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PUBLIC CHARTER SCHOOLS

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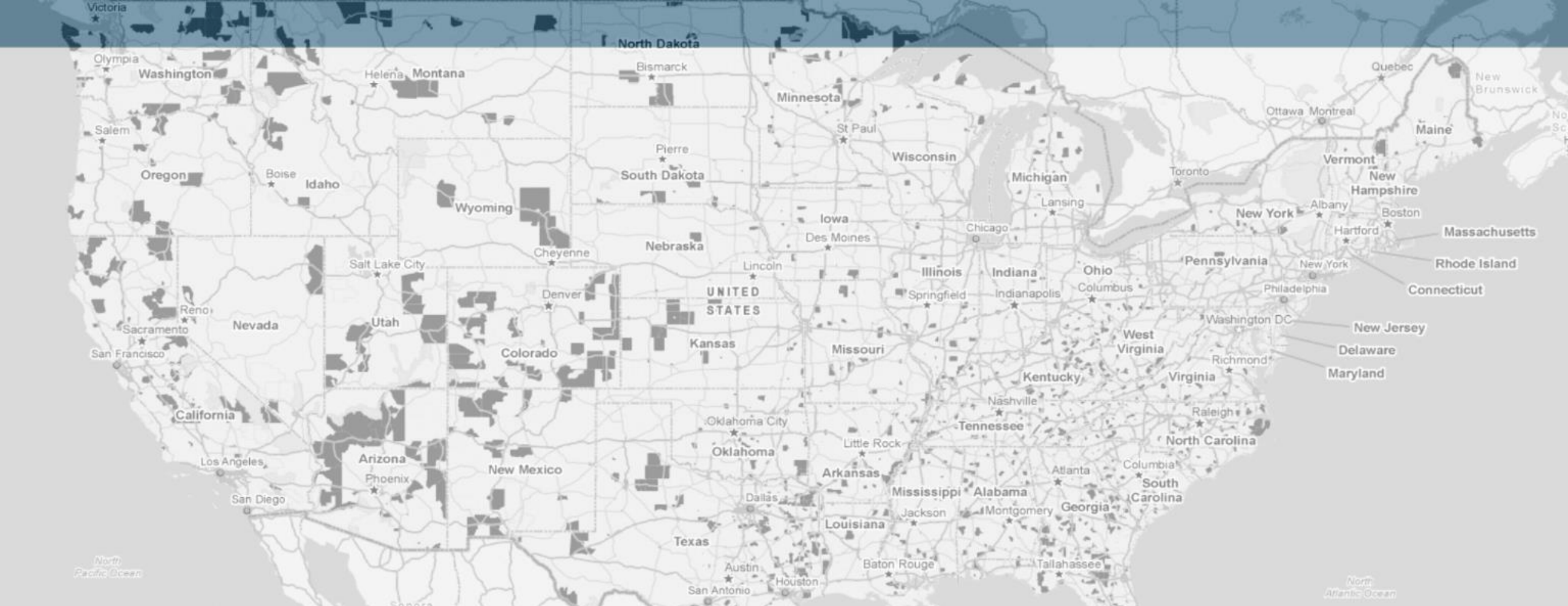
Overview

- Introduction (Christy Wolfe)
- What Charter Schools Need to Know (John Bailey)
- How Charter Schools Can Benefit: Use Cases (Kahlmus Eatman and John Sun)
- Resources and Potential Pilot Opportunity (Mark Medema)

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Opportunity Zones / Funds



A Bipartisan Concept

The Economic Innovation Group (EIG) originally developed the concept in 2015 to help address distressed communities.

The “Investing in Opportunity Act” sponsored by Senators Tim Scott (R-SC) and Cory Booker (D-NJ) and Representatives Pat Tiberi (R-OH) and Ron Kind (D-WI), with a group of almost 100 bipartisan co-sponsors.

Allows for preferential capital gains investment in projects within state-designated low-income neighborhoods.

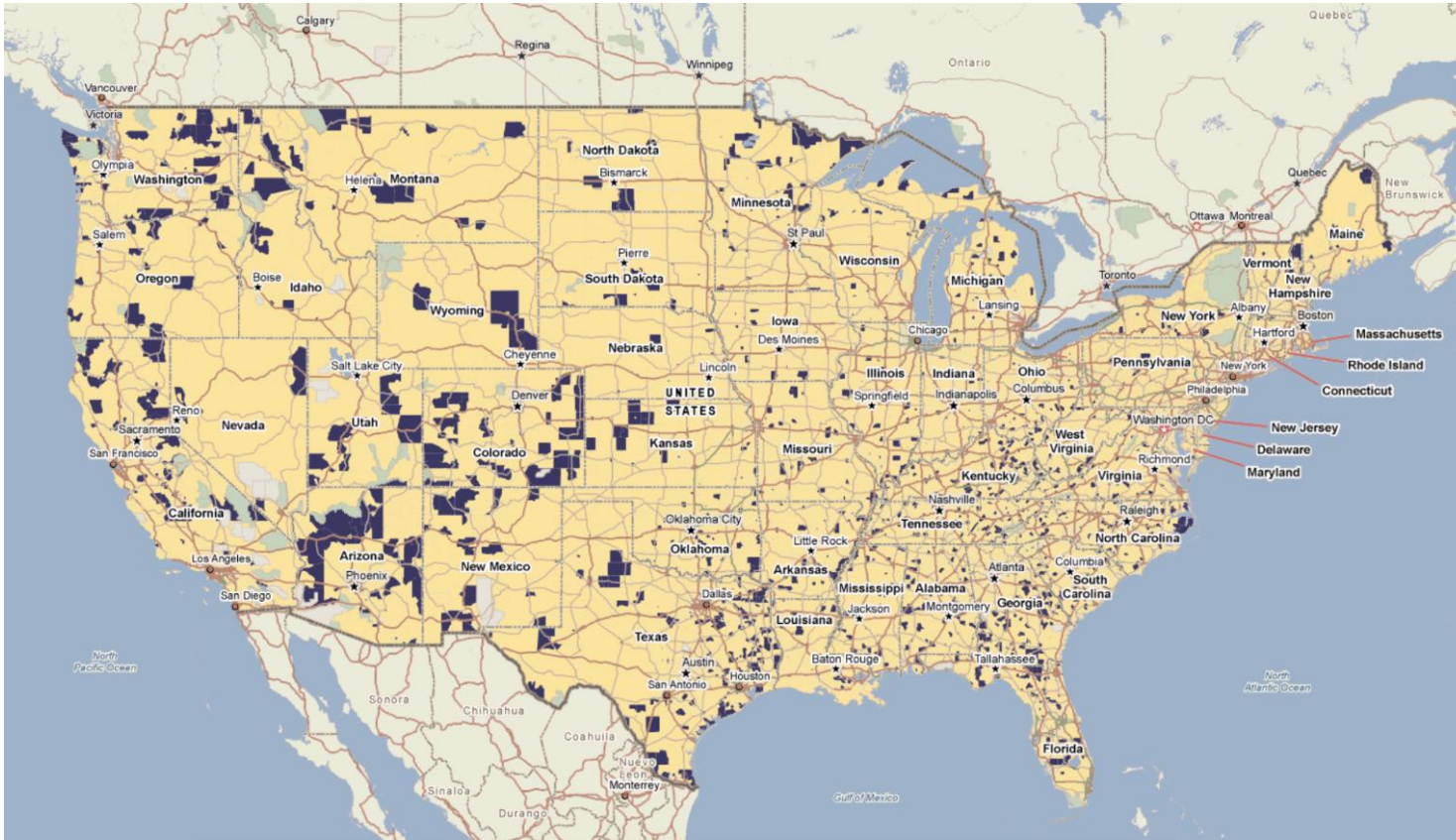
There are 8,700 neighborhoods nationwide competing to attract up to \$6 trillion in unrealized capital gains held by individuals and corporations.

What Makes Opportunity Zones Unique?

- It is an **investor incentive** that pertains exclusively to **capital gains**.
- It rewards **patient capital**: Incentives are tied to long-term investment.
- It takes **equity** capital off the sidelines & puts it to work in low-income communities.
- It provides **no up-front subsidy** and doesn't pick winners.
- It can move at the **speed of the market**.

8,700 Opportunity Zones

Governors designated up to 25 percent of Low-Income Community Census tracts to be certified by Treasury as Opportunity Zones. Designations last for 10 years and can't be added to or changed.



Higher Poverty: Median household income of \$34,000, compared to \$58,000 for all tracts. Twice as likely to be located within a persistent poverty county (experienced a poverty rate of at least 20 percent for 30 years)

Higher Unemployment: 14.4% Unemployment Rate. 38 % of prime age adults are not working.

Lower Education Attainment: Adults have lower educational attainment than both the surrounding area and the census tracts that were eligible but not nominated.

Higher Minority Population: Included larger African-American and Hispanic populations than the eligible or total tracts.

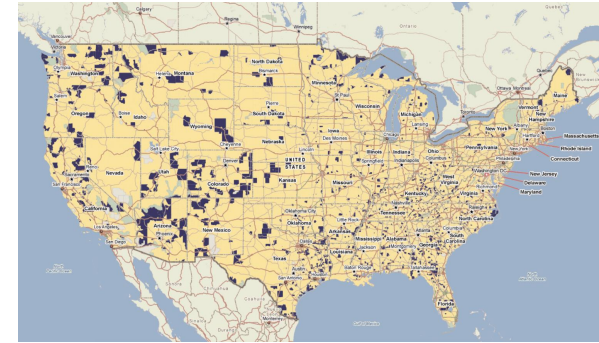
Opportunity Zones / Funds Essentials

History & Goals

Bipartisan program included in the 2017 Tax Act to encourage long-term, flexible investments (Opportunity Funds) in distressed communities (Opportunity Zones).

Opportunity Zones

Every Governor could designate 25% of low-income, high-poverty Census tracts to be OZs. Treasury has certified [8,700 Opportunity Zones](#) - including all of Puerto Rico.



Opportunity Funds

An individual must invest the original capital gain proceeds in an Opportunity Fund within 180 days from the sale or exchange. Fund Managers can include institutional banks, REITs, CDFIs, impact investors, etc. The program provides tax-incentives for investors holding unrealized capital gains (\$6 trillion pool of capital) to invest in Opportunity Funds.

TAX DEFERRAL

Capital gains recycled into a qualified zone are deferred until the sale of the fund or until Dec. 31, 2026.

REDUCED TAX LIABILITY

The initially invested amount of capital gains exposed to tax is reduced by 10% if the investment is held for 5 years and an additional 5 % if held for 7 years.

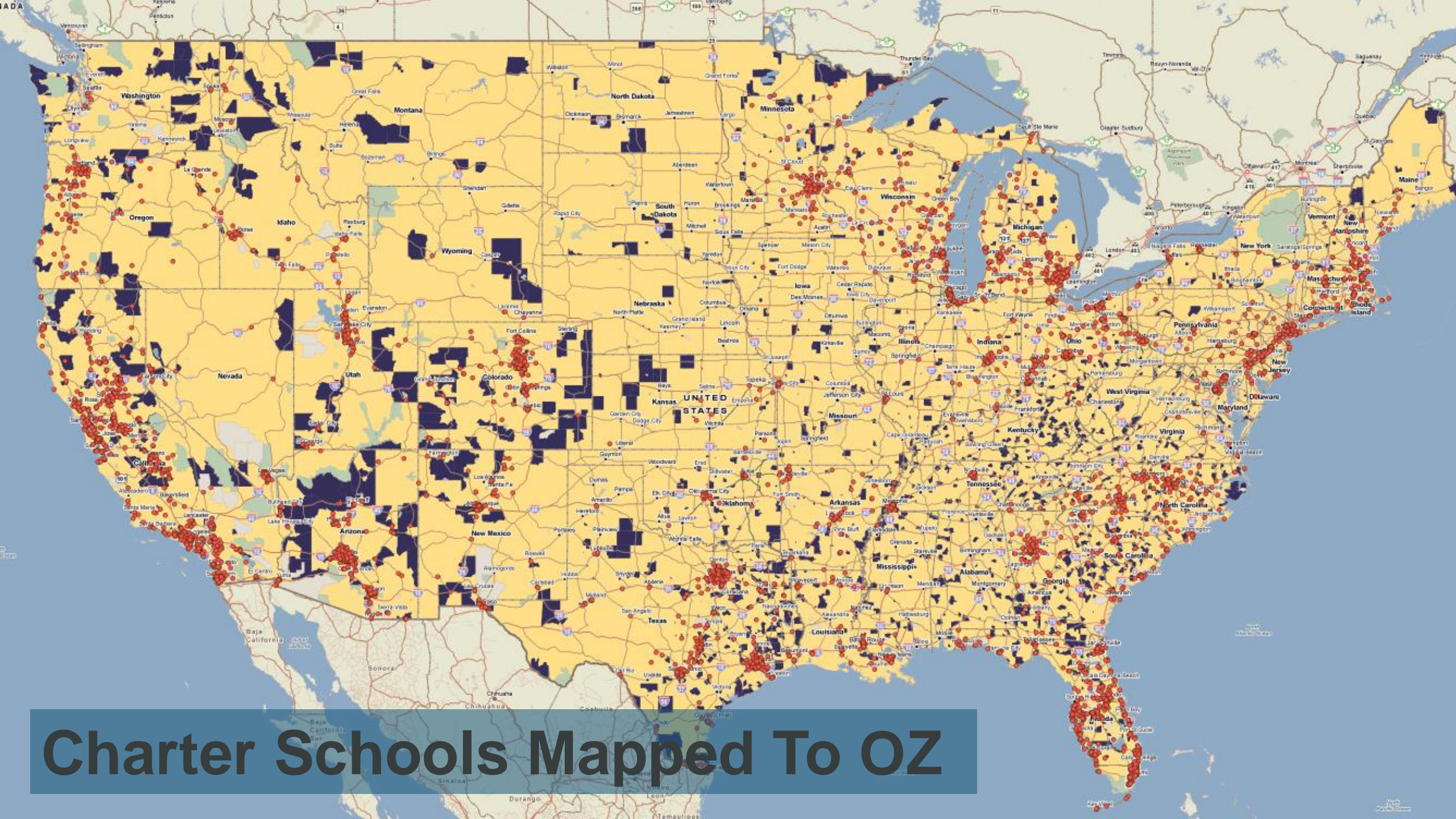
TAX FREE GAINS

The gains earned by the QOF are exempt from capital gains tax if the investment is held in the fund for more than 10 years.

Opportunity Fund Projects

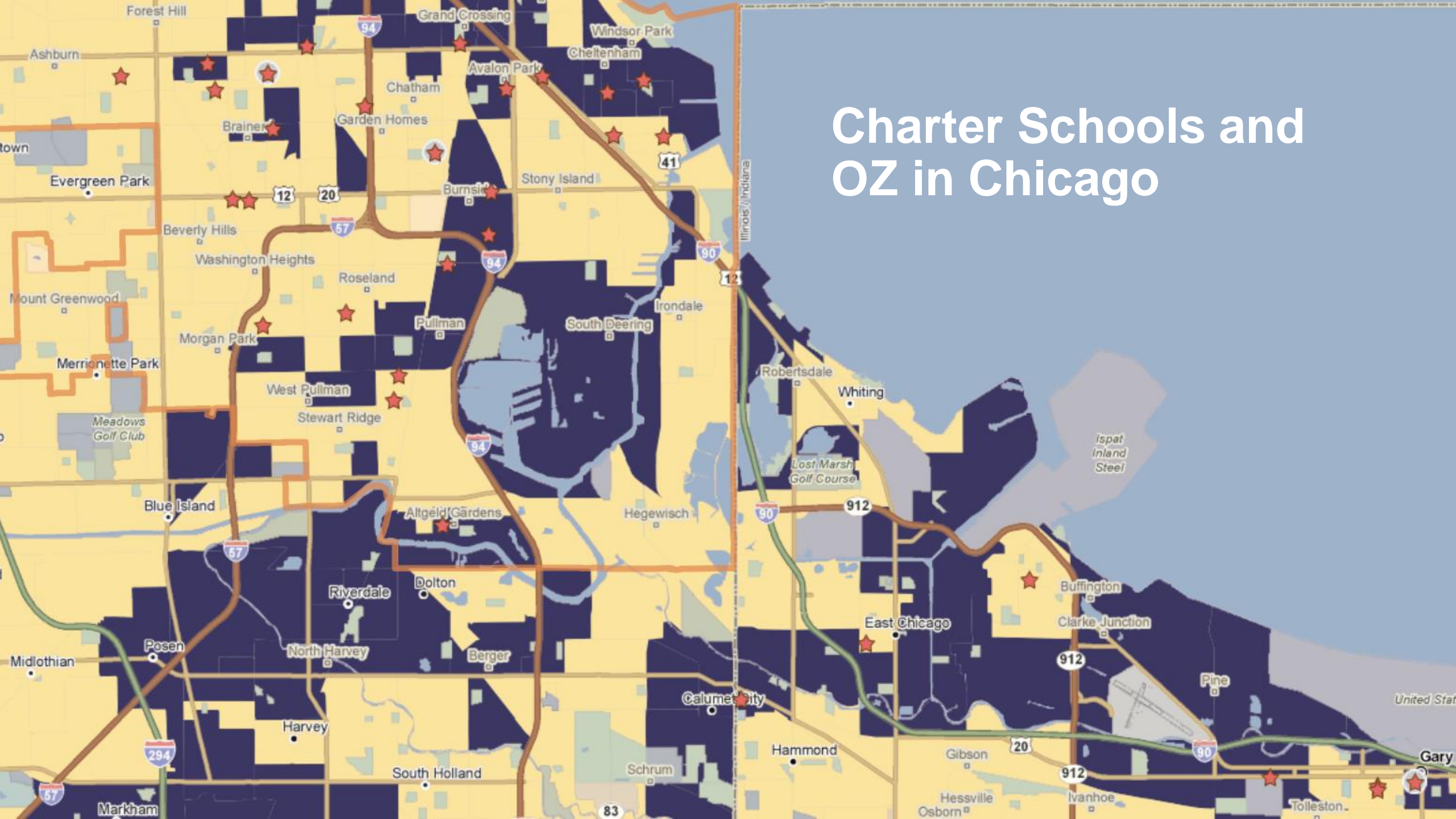
- Charter school facilities
- Real estate development and/or real estate rehabilitations
- Opening new businesses
- Capital intensive projects such as renewables, broadband build out, etc.

Can't invest in "sin businesses," e.g. gambling facility, liquor store, country club, golf course, suntan facility



Charter Schools Mapped To OZ

Charter Schools and OZ in Chicago



How do OZ's and Charter Schools Work Together?

- Project must be **located in an OZ**. (See link to [PolicyMap.com](https://www.policymap.com) at end of presentation).
- OZ investment must create '**substantial improvement**'.
 - Project must double the value of the property. This is **not** for refinancing, pure acquisitions, or modest improvements.
- OZ funds must be an **equity** investment to a taxable entity.
 - Investment cannot be made to a non-profit. The project must be structured correctly. (Talk to your lawyer)
 - This is not a grant. The investment will come due at 5, 7, or 10 years.
 - The expected rate of return from the investor will dictate whether or not this is a good option for you.
- OZ investors have **strict timelines** for making the investment.
 - Investment must be made within 180 days of the capital gains.
 - Investment must be deployed within 31 months. If the project isn't completed in 31 months, the investor is at risk and the funds may no longer be available.
- **Engage investors and mayors!**
 - Many investors may not have thought about the application of Opportunity Funds to the charter community.
 - Mayors have OZ coordinators working to identify projects and match them to investors

Project Financing Example

ILLUSTRATIVE

Sample Terms

- Size of school = 500 students
- Total project cost = \$12M

***Notes:**

- Below analysis assumes OZ investor does not require an **annual distribution/return on equity** during the term.
- School can either **fundraise** or **secure long-term financing** to take out the OZ investor.

Traditional, Non-OZ Financing

Tax-exempt (30-yr Bonds)

- Est Bond Finance costs = \$1.0M
- **Total Debt = \$13M**
- Interest rate = 6%
- Amortization = 30 yrs
- Bond Term = 30 yrs

Annual Debt Service
\$935K

Annual cost per student
\$1,871

+Lower total cost over life of loan (\$28M)
+Locked in interest rate

-Higher annual cost during loan term

Opportunity Zone Financing

Mini-Perm (10-yr OZ)

- **OZ Investor Equity = \$3M**
- **Total Debt = \$9M**
- Interest rate = 6%
- Amortization = 25 yrs
- OZ Term = 10 yrs

Annual Debt Service
\$696K

Annual cost per student
\$1,392

+Lower annual cost during loan term
+More financial flexibility during mini-perm to save/fundraise for takeout

-Higher total cost over life of loan (\$31M)
-Interest rate risk

Takeout (30-yr Bonds)

- Loan balance (at 10 yrs) = \$6.9M
- OZ Equity to be repaid = \$3.0M (0% ret)
- Est Bond Finance costs = \$1.0M
- **Total Bond Amount = \$10.9M**
- Interest rate = 6%
- Bond Term = 30 yrs

Annual Debt Service
\$782K

Annual cost per student
\$1,564

Are OZs good for you? It depends ...

- ▮ Are you in the right census tract?
- ▮ Are you substantially improving the property?
- ▮ Can you structure the project as an LLC?
- ▮ Do you need equity today?
- ▮ Do you prefer lower annual costs with a trade off of higher total costs?
- ▮ Are you willing to take on interest rate risk?
- ▮ Are the investor(s) return expectations clear and in-line with what you can afford?
- ▮ Are you sure your project can be completed in time?



QUESTIONS?

WANT TO FIND OUT MORE?

STEP 1 - Is your project in an Opportunity Zone?

Enter the address of your project location [here](#) to find out. (PolicyMap.com)

STEP 2 - Provide CSFC basic info about your project.

Email us:

- your school name,
- the estimated cost of your project,
- the type of project (e.g. leasehold improvement, land acquisition, expansion, new construction, renovation, etc.),
- the expected timeframe for opening (e.g. summer of 2020).

Or email us with questions at mark@publiccharters.org

We will send out a list of the questions/comments next week

RESOURCES

- Find out if your school is located in an Opportunity Zone here: PolicyMap
- EIG: Primary policy and advocacy center for OZ
- Novogradac: Technical resources
- Federal Reserve Bank of St. Louis OZ Explorer
- Enterprise360
- List of state resources

CHARTER SCHOOL FACILITY CENTER

SAVE THE DATE: Sunday, June 30, 1:30 - 5:00 in Las Vegas

Pre-conference on facility support at the National Conference

- Everything you need to know about developing your facility
- Sessions for charter school facility personnel
- One-on-one assistance available