Opportunity Zones Program: Challenge And Opportunity For Communities

In December 2017, the U.S. Tax Cut and Jobs Act was enacted. The Opportunity Zones Program formed from that legislation as an economic development tool designed to draw private investment into areas that experience a high level of socio-economic distress. There are 8,700+ opportunity zones in the U.S. and 161 zones in Missouri.

Even though the odds are that your community does not currently have opportunity zones, there is an impact. What does the Opportunity Zones Program mean for your community?

The vision of the Opportunity Zones Program is to positively change the economic vitality and sustainability of a community. Opportunity zones are census tracts that were nominated in 2018 by each state’s governor, then qualified federally to be designated as part of the Opportunity Zones Program. The Opportunity Zones Program is designed to benefit an investor by providing deferral and forgiveness of the federal tax on capital gains invested in a qualified zone.

Since the federal government awarded opportunity zone designations in 2018, cities and economic development organizations have been searching for ways to capture qualified opportunity fund investment to the benefit of their communities. Because of opportunity zone legislation, philanthropic and private foundations, as well as federal agencies, are rethinking how they are doing business.

“All communities should be aware that grant funding and federal support for community infrastructure and
economic development may change as Opportunity Zones Program policies evolve,” states Lee Langerock, partner with Prep the Page LLC. “We’ve seen it with the establishment of the White House Opportunity and Revitalization Council; the U.S. Economic Development Administration’s (EDA) additional priority listing authorizing funding priority in opportunity zones; and U.S. Department of Housing and Urban Development’s (HUD) change in policy. Developers and institutional funds are paying attention to the Internal Revenue Service’s (IRS) guidance and rulings for the Program. This means cities and towns across Missouri should be aware of both federal dollar and private investment focus, and be prepared to compete for that attention.”

At the Act’s onset, the president signed an Executive Order (#13853) establishing the White House Opportunity and Revitalization Council. The Council is evaluating support for urban and economically distressed areas, including qualified opportunity zones for grants, financing and other assistance. This movement aligns 160 federal programs to target, provide preference or add support to opportunity zones. In April 2019, the Council released the implementation plan with key emphasis on 1) economic development, 2) entrepreneurism, 3) safe neighborhoods, 4) education and workforce development, and 5) measurement and analysis.

As an example of how the federal grant landscape may change, communities not typically qualified for EDA funding received a boost in 2018 when opportunity zones became a qualified area for EDA investment. This was reinforced in 2019, when the U.S. Assistant Secretary of Commerce for Economic Development announced that the EDA is adding opportunity zones as an investment priority.

In 2019, federal legislation was introduced to expand zone designations. New zones were designated for disaster relief. That momentum of change is anticipated to push into 2020. States throughout the U.S. are aligning tax code and incentive packages to leverage the anticipated private investment and expansion of local designations. Opportunity zone institutional funds have been holding for a Final Ruling on tax code from the Internal Revenue Services (IRS), released Dec. 19, 2019, and codified once printed in the Federal Register.

Opportunity zones are on the radar of every multi-family, workforce housing and commercial real estate developer in the nation. By rule, to receive the investment benefit, businesses and investors must deploy their capital with the intent of profit. Investors can live anywhere in the U.S. and the investment, made through a qualified opportunity fund and/or qualified business, can be in any designated zone. As a wide-open field, community success in attracting investor attention translates when the community is prepared to meet business and developer interests proactively. The question then becomes, “what is the investment impact on my city’s financial bottom line”?

The Kresge and Rockefeller Foundations are deploying millions of dollars on opportunity zone impact. Both cities of Kansas City and St. Louis have benefited from the Rockefeller Foundation’s push to improve economic opportunity and the Foundation’s

What Is An Opportunity Zone?

The Opportunity Zones Program is an economic development tool designed to encourage reinvestment in areas of high economic distress. As part of the 2017 US Tax Cut and Jobs Act, the Opportunity Zones Program provides a tax benefit for individuals with capital gains who invest in federally designated Opportunity Zones. Opportunity funds are the investment vehicle for those individuals seeking to use the tax benefit. Opportunity funds can finance commercial and industrial real estate, housing, infrastructure, and current or start-up businesses located in the opportunity zones. While the IRS has only recently delivered final rulings for the program, individual investors and institutional funds are lining up to take advantage of this newly offered tax benefit.
leadership in promoting and fine-tuning Opportunity Zones Program policy. Urban areas are actively engaged in pursuing opportunity zone investment. However, a good percentage of opportunity zones are in rural communities and counties, where business and real estate development opportunities are not as well known, yet business and community investment ripples significantly.

The city of Excelsior Springs, Missouri, provides an excellent example of preparedness to pursue community and business development. Excelsior Springs is uniquely identified for its historical districts and emphasis on redevelopment. The Opportunity Zones Program designation covers most of the land mass within the Excelsior Springs’ city limits. In early 2019, the city of Excelsior Springs contracted Prep the Page LLC to help develop an Opportunity Zones Program strategy outline. During that process, the City determined three key priorities:

- Help educate local citizens about the direct and indirect benefits of continuing to invest in their community;

As part of the process to continue evolving its local Opportunity Zones Program, the City worked to develop a community marketing plan, including an asset study to define local opportunity and the community’s portfolio of properties.

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Inform aligned outside interests of the advantage Excelsior Spring’s Opportunity Zones provide for their return on investment; and

- Encourage qualified real estate and business opportunity zone investments.

While developing their marketing strategy, the city of Excelsior Springs clarified the need to help increase personal wealth and property values; celebrate and support the tourism industry; and promote community health and wellness. The City has a stated goal to encourage small business and industrial growth that translates into capital investment and employment.

Opportunity zones are different from enterprise and empowerment zones. However, the Program can overlap and stack with other economic development incentives offered at the local, state and federal level. Encouraging investors to contact the City prior to initiating development is a key factor in initiating a proactive approach.

“The City’s leadership for Excelsior Springs and partners have big goals for our community,” states Molly McGovern, city manager for Excelsior Springs. “We want to make sure it is understood there are opportunities for business and investors to grow in Excelsior Springs. Pursuing and addressing investment fits well with our existing business and community development mission. The City is being proactive regardless of program.”

As part of the process to continue evolving its local Opportunity Zones Program, the City re-engaged Prep the Page to facilitate the development of a community marketing plan, including an asset study to define local opportunity and the community’s portfolio of properties. To implement the plan, Prep the Page created documents, content and workflow designed to give the City a branded presence online and the tools to respond effectively to investor and business interest.

Today, Excelsior Springs is one of the few communities in the Midwest with a dedicated opportunity zone informational portal: https://www.excelsioropp.com/. For the City, the opportunity zones portal and implementation of its opportunity zone marketing plan help address the challenge of developer communication. The website opens the door to learn more about the Opportunity Zones Program and, more specifically, the community.

In addition to the portal, the City is continuing opportunity zone education by hosting forums designed around the topic.

Key Opportunity Zone Facts

- Zone designations were awarded in 2018.
- Zone expansions for disaster relief were awarded in 2019.
- Business and real estate may qualify.
- Guidance was released: April 2019 and September 2019.
- Anticipated zone expansion legislation pursuit (ongoing.)
- IRS issues further guidance for qualified opportunity funds forms October 2019.
- Final ruling from the IRS is delivered Dec. 19, 2019.
released every year to subsidize and spur redevelopment efforts. The Opportunity Zones Program, while new and fresh, is another tool for communities to utilize. Having this unique designation presents a rare moment to capture the attention of local and institutional investment alike.

While the verdict on the Program’s impact is out, the potential to put private capital to work to achieve community goals is real. From the Act’s onset, the IRS and U.S. Department of Treasury has been working to build policy and finalize regulations for investors seeking to utilize the opportunity funds benefit as part of their overall capital gains and investment strategy. IRS and Treasury Final Rules have only recently been presented for Federal Register publication. Despite this, there are billions of dollars in institutional investment within qualified opportunity funds ready to deploy throughout the United States.

To get more facts about the Opportunity Zone Program visit: https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions.

About the city of Excelsior Springs: In 2018, Excelsior Springs, Missouri, became one of the select few communities in the United States to receive not one, but two, federally designated opportunity zones. Uniquely, this covers the majority of Excelsior Springs proper located within Clay County. The city of Excelsior Springs encourages the utilization of available local, state and federal programs such as the Opportunity Zones Program to help qualified business and real estate investors leverage their return on investment. For more information: https://cityofesmo.com/development/.

Lee Langerock is a business investor with 30+ years of extensive experience in starting, operating and building business in rural, suburban and urban economies. Langerock has chaired several statewide and regional initiatives and currently serves on two national advisory boards for business and economic policy. In 2018, she joined Prep the Page LLC as a partner focused on helping cities implement effective operations and sustainable growth. Prep the Page LLC is a Missouri-based consulting company focused on helping cities plan, promote and execute operational and business development strategies. The company’s experts have 30+ years of global business and economic development experience.

Want To Learn More?
The National League of Cities answers frequently asked questions and offers a resource guide to learn more about Opportunity Zones at https://www.nlc.org/program-initiative/opportunity-zones

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**Melinda Mehaffy** is the Economic Development Director in Excelsior Springs, Missouri. After working in the Northland for more than twenty years, most notably in Gladstone and Liberty, Melinda joined the City of Excelsior Springs in April of 2017. Melinda has a long track record in the public sector from managing budgets to executing strategic planning along with extensive expertise in commercial real estate. In 2016 Melinda received her Master’s Degree focused in Public Administration from Anna Maria College.

**Disclaimer:** The information contained herein is intended as educational and not a solicitation for investment or endorsement of a product or program. Any content contained herein is intended as strictly informational and should not be construed as an interpretation of IRS Code Rulings, endorsement of policy or qualifier for investment. The Opportunity Zones program is governed by the IRS final regulatory rulings. As always, when considering opportunity zone or any other incentive program please consult the proper legal advisors and accounting vendors for advice regarding your individual or organizational requirements.

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