Competing for Equity Investment: An OPPORTUNITY Collaborative

EDAM Summer Conference
Thursday, June 13, 2019
Duluth
Overview of Today’s Remarks

Minnesota’s OZ Background
- Opportunity Zones
- Intended Impact
- Timeline | MN’s Zones

Community Investment Preparedness
- Training
- Telling the Story
- Project Development

Voice of the Investor Community
- The What & Why
- Eligible Investments
- Types of Investors
- Timelines & Investment Considerations
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Who are we?

The Minnesota Opportunity Collaborative is a partnership that seeks to inspire investment in designated Opportunity Zones.

It brings together developers, investors, businesses, and community development entities to host a statewide project and site directory, hold educational events, and share best practices on a regular basis.
An open Minnesota Opportunity Zone project and site inventory for all collaborators to:

- Display diverse investment opportunities
- Create investment interest
- Assist in securing investments in Opportunity Zones
The company is currently raising $500,000 in its initial private placement capital raise to fund the conclusion of project pre-development, property acquisition and wrap up initial sales and marketing activities. The next $20 million equity raise round will be offered to fund the construction phase of the project in conjunction with the Piper Jaffray finance package. The project ultimately seeks $20 million in equity out of a total project of $75 million.

The City of International Falls unanimously passed a resolution granting Granite Digital the maximum property tax abatement allowed under state law (pending a public hearing), provision of reasonable infrastructure improvements and required zoning changes.

Total local tax abatements awarded to the project are estimated at approximately $1,070,000 over the ten-year period commencing with the conclusion of phase I (ARC I) construction activities. Similar incentives are expected for ARC II.

Granite Digital principals have met with various representatives from the Minnesota Department of Economic and Employment Development (MN DEED) to pre-qualify ARC I for an estimated $1.6 million in grants, zero interest loans and job training incentives, as well as a 20-year sales tax refund program for facility construction and operations (including power) and customer hardware. Similar incentives are expected for ARC II.
Providing information, resources, and Opportunity Zone trainings and more to:

- Local economic development professionals with Opportunity Zones located in their communities
- Raise awareness and understanding to the larger community via public informational meetings
- Assisting communities to approach individuals within their area to consider investing in a certified Opportunity Zone Fund to benefit local projects
Statewide Collaboration

• Creates a shared space to connect efforts across the state so that more projects/deals come to fruition

• Meets via web conference to share educational materials, policy changes, and each other’s experiences
• Opportunity Zones
• Intended Impact
• Timeline | MN’s Zones
What are Opportunity Zones?

The Opportunity Zone tax incentive is a bipartisan initiative to spur long-term private investment into low-income, historically disadvantaged urban and rural communities, established by Congress in the 2017 Investing in Opportunities Act.

U.S. investors currently hold $2.3 trillion in unrealized capital gains, representing a significant untapped resource for economic development.
More than half of America’s most economically distressed communities contained both fewer jobs and businesses in 2015 than they did in 2000.

New business formation is near a record low. The average distressed community saw a 6 percent decline in local businesses during the prime years of the national economic recovery.

The U.S. economy is increasingly dependent on a handful of places for growth. Five metro areas produced as many new businesses as the rest of the country combined from 2010 – 2014.

Now is the time to diversify.
**Intended Social Impacts**

**Job Creation**
- New investments working hand-in-hand with existing assets, programs, benefits, and local conditions

**Attainable Housing**
- Fill capital gap for scaling mixed-income and workforce housing and provide new equity stream for service providers and developers

**Revitalized Community**
- Helps small business, community services, and social enterprises build wealth for people in places with historic systemic disinvestment.
Reminder of Timeline

February 2, 2018
• Learned of Qualified Opportunity Zones in new tax law

March 29, 2018
• Recommendations made to Governor’s office.

May 18, 2018
• 128 Minnesota Census Tracts approved as QO Zones

October 19, 2018
• Treasury issues guidance on Qualified Opportunity Funds

January 10, 2019
• IRS Hearing canceled due to government shutdown

April, 2018
• Second Tranche of IRS Regulations released with additional detail about properties and operating
Where are Minnesota Opportunity Zones?

Minnesota has 128 designated Opportunity Zone census tracts out of over 8,700 in every state and territory across the country.

Of Minnesota’s 128 zones, 78 zones are in Greater Minnesota and 50 zones are in the Metro.

Explore our Opportunity Zones map at https://www.mnoppco.com
## Minnesota’s Opportunity Zone 85 Communities | 62 Counties

| 2. Albert Lea     | 31. Hilltop       | 60. Owatonna       |
| 3. Alexandria     | 32. Hinckley      | 61. Park Rapids    |
| 5. Austin         | 34. International Falls | 63. Pine City |
| 6. Bagley         | 35. Isle          | 64. Pipestone      |
| 9. Bingham Lake   | 38. Lake City     | 67. Redwing        |
| 11. Blue Earth    | 40. Leech Lake    | 69. Robbinsdale    |
| 13. Brainerd      | 42. Little Falls  | 71. Roseville      |
| 14. Brooklyn Center | 43. Long Prairie | 72. Sandstone      |
| 15. Brooklyn Park | 44. Magnolia      | 73. Sauk Rapids – Minden Township |
| 16. Cambridge     | 45. Mahnomen      | 74. Scanlon        |
| 18. Crystal       | 47. McGregor      | 76. South St. Paul |
| 21. Duluth        | 50. Minneapolis   | 79. Thief River Falls |
| 23. Fairmont      | 52. Moorhead      | 81. Wadena         |
| 24. Fond du Lac Reservation | 53. Mora        | 82. West St. Paul  |
| 25. Fosston       | 54. Morris        | 83. Willmar        |
| 26. Grand Marais  | 55. North Branch  | 84. Winona         |
| 27. Grand Portage Reservation | 56. Olivia    | 85. Worthington    |
| 28. Granite Falls | 57. Onamia        |                   |
| 29. Harmony       | 58. Orr           |                   |
Preparing Your Community to Leverage its Designation

**Training**
- Educate local developers, businesses, and investors

**Telling the Story**
- Why here?
- Community statistics
- Site / Project Characteristics

**Identify & Develop Projects**
- Do they solve community issues & business needs?
Create a Local Knowledge Base

- Cities, Townships, Local Businesses
- Higher Education
- Local EDA’s, City Staff, Elected Leaders
- Local Chambers of Commerce
- Neighborhood Groups

Build a Varsity Team

- Accounting & Wealth Management
- Developers
- Land/Building Owners
- Institutions (Cty Public Health, Faith Leaders)
- Local Business Owners

Identify Projects

- Identify Potential Uses Consistent with the Area’s Comprehensive Plan
- Identify Potential Tenants In keeping w/ the Area’s Social Impact Requirements

Model created by: Benton Economic Partnership, Inc.
Building Your Team

Create a Local Knowledge Base
- Cities, Townships
- Higher Education
- Local EDAs, City Staff, Elected Leaders
- Local Chambers of Commerce
- Neighborhood Groups

Bring Together Strong Players
- Accounting & Wealth Management
- Developers
- Land/Building Owners
- Institutions (i.e. Cty Public Health, Faith Leaders)
- Local Business Owners
• Why here?
• Describe your community and its demographics, geographical and economic statistics
• Site and project characteristics
Projects: Solving Community Need

- Inventory of needs
- Prioritization of needs (aligned w/ potential use)
- Consistent with area’s Comprehensive Plan

Potential Uses

- Inventory not-for-profit sector re: their property needs/anticipated growth, etc.
- Approach existing businesses re: their property needs/anticipated growth, etc.
- Prioritize relative to consistency with the area’s Social Impact Goals

Identify Potential Tenants
You can add projects/sites to the MNOppCo Directory in 3 ways!

- **Real Estate Development**
- **Operating Business**
- **Available Property**
• The What & Why
• Eligible Projects
• Types of Investors
• Important Timelines
• Investment Considerations
Investors receive a return on their investment through a seven-year stream of tax credits (totaling 39%).

What is a Qualified Opportunity Fund? (QOF)

**Qualified Opportunity Fund:** An investment vehicle (a distinct legal entity) that is organized as a corporation or a partnership for investing in Opportunity Zone projects or sites.

QOFs are private entities, self-certified per IRS guidelines. They must be organized for the purpose of investing in Opportunity Zones.

QOFs are required to invest 90% or more of their capital as EQUITY in eligible Opportunity Zone property.

QOF property includes stock, partnership interest, or business property in an Opportunity Zone.
Why invest in a QOF?

- Deferral of Taxes on capital gains invested in Qualified Opportunity Funds for 5+ years
- Reduction of Taxes on investments held in QOFs for 5+ years
- Cancellation of Taxes on NEW Gains made through QOF investments held 10+ years
Qualified Opportunity Funds (QOFs)

**Single-Asset Funds**
- Created to invest in a single project
- Project may be a real estate project or a business

**Multi-Asset Funds**
- An aggregated capital pool that invests in multiple projects or businesses
- May have a specific focus (housing, industrial, etc.)
Eligible Projects

Real Estate
- “Original Use” – i.e. new developments
- “Substantial Redevelopments” – double adjusted basis within 30 months

Businesses
- Nexus of operations within an OZ
- Subject to various sales, tangible asset, employee or wage tests to demonstrate such nexus
Investors

Accredited Investors

• High net worth / high earning U.S. tax payers deemed “sophisticated” investors by the SEC

• Most funds “unregistered” via Form D, 506 c or d, can only allow Accredited Investors to invest

Non-Accredited Investors

• Most people, vast majority of people in OZ communities

• MNvest a possible tool
Investors in Opportunity Zones

The Opportunity Zones tool is structured to work with a wide range of potential investors including:

- Banks and institutional investors that have previously invested in other tax credits
- Corporations with capital gains exposure – insurance companies, anchor institutions, others
- High net-worth individuals (Accredited)
- Partnerships
- Social impact investors

*Non-Accredited Investors via Alternate Vehicles*
Investments
Timeline

• A realized gain occurs

• Investors have 180 days to invest in a QOF after earning a capital gain, file IRS form

• The QOF then ‘deploys’ capital into eligible Opportunity Zone projects subject to meeting “test dates”

• Investors pay capital gain tax on original realized gain in 2026 (subject to 10-15% reduction if held five (5) to seven (7) years)

• Investors who hold interest in QOF for at least 10 years have no capital gains obligation on appreciation form QOF

• Investors can sell interests in QOF, QOF can sell assets in QOF and re-invest under certain conditions
Investment Considerations

- What am I investing in?
- Where am I investing?
  - Is that area getting better or worse?
  - Why invest there vs. another place?
- What are the key risks?
- What return is expected, over what duration?
- What leverage is involved in total investment?
- Who makes decisions, do those people know what they are doing?
- How do I get my investment back and when?
DREAM Fund

Developing Real Estate in Emerging Areas of Minnesota

A MN-OZA Opportunity Zone Fund Targeting Community-Driven Economic, Social & Environmental Impact
Resources

MN Opportunity Collaborative  www.MNOppCo.com

Minnesota Opportunity Zone Advisors  www.MN-OZA.com

Community Partners Playbook  www.LISC.org/opportunity-zones/community-partners-playbook

MNOppCo Directory Submission Forms

1. Real Estate Property
   https://docs.google.com/forms/d/e/1FAIpQLSdehWm6e9G38uEVMDvc6pR8kWlTo6ZgSJF9ibKHnkjSvTJX3A/viewform

2. Operating Business
   https://docs.google.com/forms/d/e/1FAIpQLSf1kIPW2Pn5a1_ZmNuE-yuBNv9ftQWCfF8qQXS9sFl8vkdpxg/viewform

3. Available Property
   https://docs.google.com/forms/d/e/1FAIpQLSfUb2Q3ffHuWouQa1iodJif7Kpmwo4OiktI8WgIuNeGDibfQw/viewform
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Thank you!