NACCED Economic Development Committee
Opportunity Zones Briefing

September 23, 2018
Background: Eligible Investments

Any investment vehicle organized as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property (other than another QOF)

- Commercial Real Estate Development and Renovation in Opportunity Zones
- Opening New Businesses in Opportunity Zones
- Expansion into Existing Businesses into Opportunity Zones
- Large Expansion of Businesses Already in Opportunity Zones
Background: Overview of Structure

Private Capital: Investment income subject to capital gains tax
  ~ $6 trillion market

Investment Vehicle: Opportunity Fund

- Interest in a domestic partnership
- Stock in a domestic corporation
- Tangible property used in a trade or business of OF (substantial improvement)
Background: Tax Benefits for Investors

Temporary Deferral
A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed or December 31, 2026.

Step-Up In Basis
A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

Permanent Exclusion
A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

Source: Economic Innovation Group
10 Year Scenario - $800,000 invested in 2019

Sell property/stock with a tax basis of $200,000 for $1 million, $800,000 of capital gain can be deferred if reinvested in an Opportunity Fund.

- **2019** (Day 1): immediate deferral of eligible investment

- **2024** (Year 5): 10% of deferred gain permanently eliminated
  - $720,000 of deferred gain is taxable at exit or 12/31/2026

- **2026** (Year 7): 15% of deferred gain permanently eliminated
  - $680,000 of deferred gain is taxable at exit or 12/31/2026

- **2029** (Year 10): Appreciation of investment is fully tax-exempt
  - Sold interest in fund after 10 years; no gain taxed after 2026.
What is Displacement?

Conditions that Cause Vulnerability

• Steadily Increasing Commercial Rents
• Rising Housing Costs
• Evolving Customer Base & Changing Demographics
• Increase in Development Activity

Responses to Vulnerability

• Ensuring Communities Benefit from Investments that are Occurring
• Ensuring Owners Who Live & Own Businesses Can Stay in their Community
Displacement Considerations for Business Owners and Residents

**Policy Considerations**

- **Zoning/Ordinance Modifications** – Allow complementary businesses to co-locate in joint commercial spaces to reduce costs to business owner (e.g.: Storefronts)
- Encourage property owners to offer longer-term leases, targeting commercial districts
- Develop Right-of-Refusal policy that will commercial tenants the first right to purchase a building at sale
- Establish Polices-in-Place by expanding opportunities for inclusive community engagement involving new construction and development
- Issue state & local tax abatements to enable businesses’ ability to remain in place

**Program Considerations**

- Earmark Funds – Utilize CDBG fund for training workshops and capacity building on matters like commercial leasing & incentives available to business owners
- Provide grants for Market Studies to help local entrepreneurs make informed decisions on business location
- Environmental & Socio-economic “Impact” Reviews – Establish local ordinance requirements for land development based on findings

**Technical Assistance & Capacity Building Considerations**

Utilize tools to give business owners & residents a voice in decision-making (e.g.: coUrbanize)
Displacement Considerations for Small Businesses

• **Ordinances/Master Planning** – Target select commercial spaces be used by businesses serving “local” service needs. (e.g.: Moderate size of commercial units in new development to ensure affordable rents)

• **Planning**: Proactive participation on the part of local governments in negotiating redevelopment plans that are designed to prevent displacement of micro and/or small businesses.

• **Knowledge**: Assess 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.
Strategies to Mitigate or Prevent Displacement

- Leverage the role of CDFIs and other local community intermediaries to promote financial literacy, increase homeownership, develop project pipelines, manage, underwrite, etc.

- Create incentives to facilitate the use of Opportunity Funds for LIHTC or NMTC deals or other social impact projects

- Offer additional tax relief to reward socially minded projects in Opportunity Zones

- Offer regulatory relief for Opportunity Funds that support affordable housing and other equitable growth investments

- Align existing, proven development programs with Opportunity Zones
Strategies for Attracting Investments

Begin Engagement:
- Raise awareness with networks (banks, developers, property owners, business networks) and with local entrepreneurs and growth companies
- Develop relationships with local universities, trade schools, business incubators for longer term investment strategy
- Discuss with local planners and developers how these investments might fit into ongoing pipelines of their work

Prepare a Pipeline:
- Inventory shovel-ready projects
- Inventory local assets (i.e. land, infrastructure, buildings, etc.)

Pair Incentives:
- Discuss and promote add-on incentives from the local, regional, state partners
  - Consider additional tax relief for certain Opportunity Fund investments
  - Consider regulatory relief, waivers of fees, tax increment financing, workforce development training
Strategies for Attracting Investments - Examples

- **Missouri** - [SB590](#) modifies state Historic Preservation Tax Credit to set aside credits for projects redeveloped inside Opportunity Zones

- **California** – [AB3030](#) would add projects financed by Opportunity Funds to list of those exempt from the California Environmental Quality Act

- **Ohio** - [H.B. 727](#) would create a state tax credit for Ohio taxpayers investing in local Opportunity Zones. As proposed, the credit would be available to taxpayers investing a minimum of $250,000 into an Opportunity Fund with assets solely invested in Ohio and is valued at 10 percent of that investment.
Opportunity Zones

Enterprise’s Opportunity Zones Platform

Enterprise is building a comprehensive platform of financing, services and resources for inclusive, equitable and intentionally-implemented Opportunity Zones. By aligning private investments with local priorities, Enterprise plans to generate $1 billion in Opportunity Zones Investment activity over the next decade.
Additional Resources: Opportunity360 Mapping Tool

**Overlays**
- QCT vs Contiguous
- Rural/urban
- Tribal/non-tribal
- Safe Harbor status
- NMTC investments
- Empowerment Zones
- Promise Zones
- Section 538 projects
- Choice Neighborhoods
- Section 514/515 projects

**Opportunity360 Toggles**
- Housing Stability
- Economic, Health
- Mobility, Education
More Information

Enterprise Community Partners - www.OpportunityZonesInfo.org
CDFI Fund, Treasury - Opportunity Zones Resource Page
Economic Innovation Group - Opportunity Zones Landing Page
Council of Development Finance Agencies – Resource Page
IRS – Opportunity Zone FAQs
Local Initiatives Support Coalition (LISC) – Fact Sheet
Bloomberg Tax – Fact Sheet

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