Finding Opportunities in Opportunity Zones

GOAL: Inform NADC conference participants about Opportunity Zone (OZ) facts.

GUIDING PRINCIPLE: Successful OZ impact investments will require community level guidance and support.

NADC 2019 Conference – Billings, MT
Wednesday, July 31, 2019
1:30 – 3:00 PM

Presenters:
MDOC: Tom Kaiserski, Mary Craigle, and Keegan Hall
COMMUNITY – Keegan Hall
Main Street Program and Planning, Community Development Division (CDD)

ECONOMIC RESEARCH – Mary Craigle
Research Data, Census & Economic Information Center (CEIC)

INDUSTRY DEVELOPMENT – Tom Kaiserski
Business Opportunities, Industry Development Program (IDP)
SUCCESSFUL OPPORTUNITY ZONE DEVELOPMENT IS LOCAL COMMUNITY DRIVEN
Opportunity Zones – a Few Key Terms

• **Opportunity Zone (OZ):** A census tract which has been designated as eligible to receive private investments through a Qualified Opportunity Fund.

• **Qualified Opportunity Fund (QOF):** Private investment vehicle, organized as corporations or partnerships and certified by the Treasury, to aggregate and deploy capital in Opportunity Zones for eligible uses defined as Opportunity Zone Property.
  
  – Must hold 90% of assets in a Qualified Opportunity Zone Property.
  
  – Asset holdings tested at 6 months and calendar year end.
Opportunity Zones – a Few Key Terms

**Qualified Opportunity Zone Property (QOZP):** Includes interests in stock of a corporation, partnership interest, or business property, each of which must be involved in a Qualified Opportunity Zone Business (QOZB).

- Must have been acquired after December 31, 2017, solely in exchange for cash.

- The underlying entity must have been a QOZB when the stock or interest was issued or, if a new entity, the entity was being organized for the purposes of being a QOZB.

- During substantially all of the QOF's holding period of the stock or interest, the entity qualified as a QOZ.
Opportunity Zones – a Few Key Terms

Qualified Opportunity Zone Business (QOZB): Business or trade which substantially all (70%) of the tangible property owned or leased by the entity is QOZBP:

- **At least 50%** of the total **gross income** of such entity **is derived from the active conduct** of a trade or business in a QOZ (example provided later).

- A substantial portion (40%) of the **intangible property** (trademarks, copyrights, licenses, etc.) of such entity is used in the active conduct of a trade or business in a QOZ (example provided later).

- **Less than 5%** of the average of the aggregate unadjusted basis of the property of such entity **is attributable to nonqualified financial property**, which **does not include reasonable amounts of “working capital assets”** held in cash, cash equivalents, or debt instruments with a term of 18 months or less (referred to as a working capital **safe harbor**).
Consider the Impact

- Public
- Tribal
- Private
Reimagine instead of recreate

• Continue the high caliber work you do.
• Layer funding
• Coordinate
Position for Growth & Investment

• Proactive
  – Planning Documents (existing & needed)
  – Build Prospectus for Projects / OZ Area
  – Educate and Engage

• Prepare
  – Do your Research
  – Leverage Funding
  – Highlight Local Projects and Partners
Position for Growth & Investment

- Prioritize
  - Key Development; Local goals and Local needs
  - Identify Necessary Support (infrastructure, workforce, financing, other partners and stakeholders, etc.)

- OZ Potential
  - Manage Local Need and Vision
  - Common Purpose
Communities Need to Do the OZ Work

- Request for Information
- Term Sheets
- Engaging Philanthropy
- Community Engagement
- Asset Mapping – what are the values
- Incentives and Barriers – Pave and Direct the Development Path (regulation, financing, local abatements, etc.)
Montana’s Opportunity Zones

25 out of 106 Federally Eligible Census tracts (limited to 25)
Total estimated population of chosen tracks = 94,401  (Source U.S. Census Bureau ACS 2013-2017)
Montana’s Opportunity Zone Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Total Opportunity Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone Residents</td>
<td>93 k</td>
</tr>
<tr>
<td>Zone Jobs</td>
<td>100 k</td>
</tr>
<tr>
<td>Zone Businesses</td>
<td>8 k</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Montana</th>
<th>Opportunity Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority Minority</td>
<td>5%</td>
<td>24%</td>
</tr>
<tr>
<td>Poverty Rate</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Median Income</td>
<td>$59,728</td>
<td>$46,643</td>
</tr>
<tr>
<td>Bachelor Degree +</td>
<td>29%</td>
<td>23%</td>
</tr>
<tr>
<td>Adults Not Working</td>
<td>26%</td>
<td>34%</td>
</tr>
<tr>
<td>Median Home Age</td>
<td>42</td>
<td>51</td>
</tr>
<tr>
<td>Rent Burdened</td>
<td>72%</td>
<td>67%</td>
</tr>
</tbody>
</table>
OZ Incentive in Nine Numbers

- 19 - 26 - 47 (Milestone Years)
- 180 – 6 – 31 (Time)
- 90 – 70 - 50 (Investment Allocation)
Visualization of Key Dates for Investors and Qualified OZ Funds (QOF)

- **2019**
  - January 1, 2019: Taxpayer sells asset generating $100 of capital gain.
  - June 30, 2019 (within 180 days of sale of asset): Taxpayer invests entire $100 capital gain in QOF.
    - QOF invests the $100 in QOZ property.
    - Taxpayer deemed to have $0 basis in its investment in the QOF.

- **2024**
  - June 30, 2024: Taxpayer’s basis in the deferred capital gain investment in QOF increases from $0 to $10 (10%).

- **2026**
  - June 30, 2026: Taxpayer’s basis in the deferred capital gain investment in QOF increases from $10 to $15 (15%).
  - December 31, 2026: $85 of the deferred $100 capital gain is taxed.

- **2029**
  - June 30, 2029: Taxpayer sells investment in the QOF for $200. Basis in taxpayer’s investment in the QOF is deemed to be fair market value and thus, no tax is due on the appreciation in the QOF investment.

QOZB/QOZBP Examples
QOF LLP Invests in Project

DIRECT INVESTMENT

Investors

CAPITAL GAINS

QOF (LIMITED PARTNERSHIP)

QOF Sponsor Entity (IF APPLICABLE)

General Partner Entity

QOZBP

Investing in Qualified Opportunity Funds,
QOF LLP Invests in Business Which Does a Project
Investment Projects
Four Basic Types

1. Mid-teen IRR that will attract first money
2. Impact investing – give up one thing to do mission impact
3. Paired Projects – condos and clinic or grocery
Projects for Communities to Promote

• First Choice – projects that just need a tweak

• Mid Choice – Have a well developed project

• Last Choice – I have a vague idea for something large (ground up / substantial innovation)
OZ Business / Projects must provide sufficient return

There are three kinds of Opportunity Zone real estate projects:

– Some would have earned sufficient returns without the OZ incentive but benefit further from the added return due to the capital gains tax treatments.
– Some are on the bubble, but could now provide a sufficient returns because of the Opportunity Zones incentives.
– Others won’t work without additional subsidies like low-interest loans.

Reducing the capital gains tax burden can push certain projects over the line.
QOZs were Designed to Work in Tandem with State and Local Tax Incentives

Developers need to consider state and local tax credits beyond QOZ incentives.

Numerous programs offer developers tax abatements, deferrals and incentives in the same economically distressed areas as QOZs.

These extra incentives will make opportunity zone projects more attractive to investors and may bring new capital deeper into the areas that need it most.
COMMUNITY - A look at Houston TX and Helena MT

The Assets:

Innovation Corridor

- 4 miles that integrate cutting edge companies among existing research and business hubs between the Texas Medical Center and downtown Houston.
- Rail-transit oriented for ease of access.
- Investment from Rice University, City of Houston, and other collaborative partners.

The Ion & Midtown Innovation District

- The Ion is a $100 million, 270,000 sq. ft. facility that will serve as a multi-institutional technology collaboration hub for startups and universities to innovate alongside Houston’s top companies. The building will open in Q4 2020.
- The Ion is located within a 16 acre master planned district that will consist of various retail, multi-family, office, hotel, and greenspace amenities.

The Opportunities: Invest in qualifying start-ups and business expansions in a growing tech industry and partner with a major university to expand the innovation ecosystem in the City of Houston.
Great Northern District
A modern center for business and family entertainment

The Great Northern District caters to the modern professional who lives and works Downtown. With upper-level housing, coffee shops, fitness centers, family entertainment, and a lively nightlife, the young professional or retiree’s desire for an urban lifestyle is satisfied with a wide variety of amenities.

Last Chance Gulch Retail Core
A traditional downtown shopping street with appeal for both tourists and local residents alike

The Last Chance Gulch Retail Core invites Helena and its surrounding communities into the Downtown for a unique experience with historic architecture, local shops and restaurants, and an active street life. The retail core celebrates the traditional main street character and charm with wide sidewalks, engaging storefronts, and the distinctive walking mall.

Fire Tower District
A hub of entertainment, recreation, history, arts and culture

By embracing its eclectic mix of businesses and architectural styles, the Fire Tower District’s casual atmosphere welcomes locals and visitors to hang out in a brewery, meet up with friends before hitting the trails, or pick up dinner from a local vendor at the public market. Condos and townhouses that appeal to the millennial or baby boomer bring energy and demand for restaurants, outdoor gathering places, and cultural vibrancy.
Downtown Framework

Fundamental to the Plan is that Downtown must not only sustain existing businesses, but capture demand for development that is currently occurring elsewhere. Downtown Helena is well-poised for success. Current market trends favor Downtown growth, but the Plan must be proactive to capture these opportunities.

The Downtown Framework, a conceptual representation of the vision for Downtown, links the modern Great Northern Town Center and the Historic Downtown with a strong retail backbone along Last Chance Gulch. The two “districts” are given distinct identities, but remain strongly connected by the retail core. Each district is anchored by employment and entertainment uses that support the retail core, which provides a strong walking connection along a traditional retail shopping street.

The areas that surround the retail core provide a foundation to support and sustain the other districts by providing opportunities for workforce housing, business incubators and start-ups, and parking. Each area plays an important role and function in the success of the entire Downtown, and is necessary to strengthen Downtown’s potential.

The following pages provide descriptions and imagery of the vision for each district. Each district already embodies many of the descriptive characteristics and should look to strengthen and build upon its identity through the addition of its underdeveloped characteristics.

**Great Northern District**
- Minimal Setbacks
- Walkable Streets
- Entertainment/Cinema
- Neighborhood Services
- Hotel/Conference Center
- Health/Fitness Center
- Medical Services/Clinic
- Schools/Colleges
- Business Incubators
- Contemporary/Classic Architecture
- Upper-Level Housing
- Employment
- Class A Office Space
- Secure/Structured Parking
- Ground Floor Office or Retail

**Last Chance Gulch**
- Wayfinding and Tourism Information
- Shared-Use Bike Lanes
- Convenient, Nearby
- Long-Term Parking
- Short-Term On-Street Parallel Parking
- Upper-Level Office/Residential
- Active Ground Floor Retail
- Low-Speed Two-Way Traffic
- Street Trees/Furniture
- Wide Sidewalks
- Well Maintained/High Quality
- Well Lit/Pedestrian
- Scale Lighting
- Zero Setbacks
- High Ceilings/Large Windows
- Continuous Storefronts

**Fire Tower District**
- Public Market
- Employment
- Eclectic
- Active Lifestyle Retail
- Architectural Variety
- Art & History
- Townhomes, Condos, & Apartments
- Affordable/Workforce Housing
- Outdoor Seating
- Trails & Open Space
- Neighborhood Schools
- Gathering Places
- Restaurants, Bars, Breweries
- Performance Arts

**Downtown Framework**
- Conceptual representation of the vision for Downtown
- Support & Sustain
- Maintain & Strengthen
- Great Northern District
- Last Chance Gulch retail corridor
- Fire Tower District

**Support & Sustain**
- Create Gateways & wayfinding leading into Downtown
- Strengthen connections to residential neighborhoods, other community centers & destinations
Existing Business - a look at Louisville

Project Summary - The Obsidian Solar Center will consist of up to 7,000 acres and provide a nominal generating capacity of up to 600 MW ac (up to 1,000 MW dc), and an average generating capacity of up to 300 MW ac (up to 500 MW dc).

The facility will be organized like an industrial park: it will contain separate individual facilities all located within the fence around the industrial park. The Obsidian Solar Center will likely combine two types of technology: pv solar power generation technology, and battery storage technology. How the generation and storage technologies are combined and built will depend on the needs and preferences of the project/power buyer(s).
A few hours away from the Navy Yard in what used to be coal country is the Jessup Small Business Center [link]. It sits on a scenic mountain ridge just east of the city of Scranton, Pennsylvania. This 132 acre mixed use park is not only a designated an Opportunity Zone but also is a Keystone Opportunity Zone and a Keystone Innovation Zone, meaning businesses located there receive special Federal, State and City tax advantages.

The park is positioned in the center of the Boston-Washington Corridor and has class A-office as well as industrial rentable space readily available at 1/5th the cost of the Navy Yard. The park also has several dozen building sites available ranging from 7 to 45 acres each.

The park is located at the crossroads of five major highways and provides ready access to the business centers of New York City, Philadelphia, Boston Washington D.C. and the Canadian markets, is within a 50 mile radius of a potential workforce of 586,000 residents, and is home to 14 colleges and universities.
Places to Look at Other Projects
Colorado OZ Projects

https://www.colorado-invest.com/search-opportunity-zone-investments/
Places to Look at Other Projects
Ohio OZ Projects

https://opportunityzones.ohio.gov/wps/portal/gov/ooz/resources/find-opportunities-for-investors
Additional Regs Expected Fall 2019

• Congress expected to submit legislation for **OZ Reporting** that includes the provisions that were in the **Investing in Opportunity Act**

• Possibility that the December 31, 2019 deadline for investing to get max tax benefit may be extended

• Congress is looking at allowing OZ incentives in census tracts that are impacted by a natural disaster
RESOURCES AT FEDERAL AND STATE LEVELS
## Federal Agency OZ Promotion

<table>
<thead>
<tr>
<th>AREA</th>
<th>LEAD AGENCY</th>
<th>SUPPORT AGENCIES</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development</td>
<td>Commerce</td>
<td>SBA, HUD, Ag, Treasury, DOT HHS, EPA</td>
<td>Leverage federal grants and loans in a more integrated way to develop dilapidated properties and provide basic infrastructure and financial tools to attract private investment.</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>SBA</td>
<td>Departments of Commerce, Energy, Agriculture, Interior</td>
<td>Leverage government lending and grants to stimulate access to private capital, and promote programs that assist entrepreneurs.</td>
</tr>
<tr>
<td>Safe Neighborhoods</td>
<td>DOJ</td>
<td>HHS, EPA, Interior</td>
<td>Combat drug addiction and the opioid crisis, reduce crime/enhance public safety, and address environmental contamination obstacles to development.</td>
</tr>
</tbody>
</table>
Federal Agency OZ Promotion - Continued

<table>
<thead>
<tr>
<th>AREA</th>
<th>LEAD AGENCY</th>
<th>SUPPORT AGENCIES</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Workforce Development</td>
<td>Education &amp; Labor</td>
<td>HHS, Ag, Commerce, Energy</td>
<td>Improve the efficacy of K-12 and community college career and technical education and workforce development programs to better prepare workers in distressed communities for jobs.</td>
</tr>
<tr>
<td>Measurement</td>
<td>Council of Economic Advisers</td>
<td>Treasury, HUD, Commerce</td>
<td>Develop robust reporting and analytics to measure impact of Opportunity Zones.</td>
</tr>
</tbody>
</table>
State Resources and Help Community, Business, Industry

• Website Resources [opportunityzones.mt.gov](opportunityzones.mt.gov)
• Assist in identifying and directing to expertise – especially locally
• Help integrating existing grant programs into financing stack
• Using OZ incentive with other support state provides
QUESTIONS AND CONVERSATION