An Overview of Opportunity Zones

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Purpose

- Provide information on how the law works
- Review other practices across the country
- Discuss ways to partner and incent desired investment with community benefits
- Outline next steps
A few caveats...

- This is an incentive awarded to investors by the Internal Revenue Service... not a municipally regulated program.

- All incentives pertain to the tax treatment of an investor’s capital gains.

- Geared toward qualifying investments in new businesses, existing businesses, and new development projects.

- All current regulations are still proposed, not final.
Opportunity Zones
THE TARGETS OF OPPORTUNITY INVESTMENTS
What is an Opportunity Zone?

- A low-income census tract, as determined within New Markets Tax Credits legislation, is designated as an Opportunity Zone by the governor of the state or territory in which it is located. Designations will stay in place for 10 years (beginning in 2018).

- The Opportunity Zones tax incentive was established by Congress in the 2017 Tax Cut and Jobs Act…and Investing in Opportunities Act.

  - Goal: to spur long-term private sector investments in low-income urban and rural communities nationwide
How are Opportunity Zones designated?

- Governors of every U.S. state and territory nominated up to 25 percent of their low-income/high-poverty census tracts as Opportunity Zones.

- Governors had 90 days from enactment (ending March 22, 2018) to submit their nominations to the U.S. Treasury Secretary in writing.
  - This meant Governor Snyder had to submit his nominations for Michigan no later than March 21, 2018. The governor was permitted to request a 30-day extension of this deadline, but he opted not to request that extension.

- Governors were given broad discretion when it comes to designating zones that meet the basic criteria. Congress also advised governors to give preference to areas that:
  - Are a “low-income community” under Section 45D(e) for New Markets Tax Credits,
  - or contiguous with a designated low-income community and the median family income does not exceed 125% of the median family income of the contiguous designated low-income community (such QOZs could be no more than 5% of the qualified Opportunity Zones in a state)
How are Opportunity Zones designated?

- In Michigan, the Opportunity Zone process was managed by Michigan State Housing Development Authority and the Governor’s Office.

- There were 1,152 eligible census tracts in Michigan...however the maximum of 25% or **288** tracts were allowed to qualify per program rules.
Region 4 Opportunity Zones

- 8,700 nationwide
- 288 statewide
- 26 in Region 4
- At least one in each county:
  - Muskegon County: 4
  - Kent County: 10
    - Grand Rapids: 8
    - Wyoming: 2
  - Montcalm: 2
  - Mecosta: 2
Michigan State Housing Development Authority would only nominate 8 census tracts in Grand Rapids.

The City narrowed its recommendation to 8 census tracts, those being 26, 28, 30, 32, 35, 36, 37 and 38 with a focus on wanting to eliminate disparities, reduce lead concentration & include the Neighborhoods of Focus.

These census tracts have multiple development project opportunities, city planning and economic development initiatives underway, all of which have included community and stakeholder input and opportunities for engagement:

- S. Division/Grandville Corridor Improvement Authority
- Southtown Corridor Improvement Authority
- Southtown Business Area Specific Plan
- Rapid Silver Line
- South Division Plan
- 201 Market Future Development Site
How do Opportunity Zones work?

The Opportunity Zones program offers investors three incentives for putting their capital to work rebuilding economically distressed communities:

1. **A temporary deferral:** An investor can defer capital gains taxes until 2026 by putting and keeping unrealized gains in an Opportunity Fund.

2. **A reduction:** The original amount of capital gains on which an investor has to pay deferred taxes is reduced by 10% if the Opportunity Fund investment is held for 5 years and another 5% if held for 7 years.

3. **An exemption:** Any capital gains on investments made through the Opportunity Fund accrue tax-free as long as the investor holds them for at least 10 years.
Opportunity Funds
THE VEHICLE FOR INVESTING IN OPPORTUNITY ZONES
What are Opportunity Funds?

- Investment vehicles organized as corporations or partnerships for the purpose of investing in qualified Opportunity Zone property

- Must hold at least 90% of their assets in such property and will be audited twice yearly

- All investments that seek to benefit from the tax advantages of the program must be made through an Opportunity Fund.
Who can invest and create Opportunity Funds?

- Institutional investors and investment banks, impact investors, Community Development Financial Institutions, multifamily offices, philanthropies, venture capital partnerships, angel groups, Real Estate Investment Trusts and more can invest in or establish their own Opportunity Funds.

- We expect funds to differentiate themselves along “themes”, from geographic scope to investment type to management style.
What can Opportunity Funds invest in?

- There are three types of business property eligible for investment.
- If the original use does not commence with the Opportunity Fund investment, then the property must be substantially improved in order to qualify.
- This includes, high-growth startups, main street businesses, real estate, manufacturing facilities, brownfield redevelopment, entrepreneurship incubators and accelerators, co-working spaces, rental housing, affordable housing, and more.
- So-called “sin” businesses are excluded, including marijuana related businesses, however it is not specifically addressed in the legislation.
Other Fund Facts

- Opportunity fund investments can be added to the overall capital stack, without conflicting with other programs.
  - Work well with Federal Historic Tax Credits, but not so well with Low Income Tax Credits
- Still subject to property taxes
- There are hundreds of funds created, representing approximately $23 billion in potential investment
  - *Detroit Opportunity Fund, $100 - $150 million, Detroit: Multifamily Housing*
What it looks like ...

CAPITAL GAINS FROM SALE

OPPORTUNITY FUND

INVESTMENT IN PROPERTY

INVESTMENT IN LOCAL PARTNERSHIPS

INVESTMENT IN STOCK
Policy Implications
How Qualified Opportunity Zones May Affect Policy

- Governor Whitmer Executive order 2019-8
  - 3% of state expenditures to disadvantaged businesses and/or businesses located in Qualified Opportunity Zones (or 50% employed).

- Presidential Executive Order December 2018
  - Creating Opportunity Council…to drive federal funding into Qualified Opportunity Zones

- Local
  - When projects require local support, focus economic development incentives that promote community benefits in the Opportunity Zones that have a Corridor Improvement Authority, Business Area Specific Plan/Area Specific Plan or other community-based plan.
  - Consider geographic purchasing incentives
  - Focus potential Affordable Housing Fund investments, state and local environmental grants and loans, Voluntary Equitable Development Agreements, and infrastructure capital investment
The Approach

- Very similar to an investment/investor approach
- “Prospectus”-based...not “Master Plan”-based
- Building assets...what do you have to market?
- Assembling the Grand Rapids “Prospectus”
- Marketing the “prospectus” to Opportunity Funds
- Creation of new Opportunity Funds in the Grand Rapids market
- Seek local investor groups for local projects
The Prospectus

- A community investment prospectus is a document designed to attract capital in support of a specific place.

- A combination of a community marketing strategy, economic development analysis, and private investment memorandum.

- The community prospectus can take the form of a document and/or a website, but in either form it should include a data-driven perspective on the interplay of sectors, communities and institutions.

- It should include specific areas or projects where there is a demand for capital, and articulate both the opportunities (growth potential, additional incentives, etc.) and the risks of those projects.
Components of a Prospectus

- Basic Data
- Investable Opportunities
  - Specific areas, businesses or projects
- Strategic Advantages
  - Industry clusters
  - Strengths/Challenges
  - Economic Development Priorities
  - Available Incentives
LOUISVILLE OPPORTUNITY ZONE
PROSPECTUS
A Platform for Action

Prepared by
NEW LOCALISM ADVISORS
In collaboration with
THE CITY OF LOUISVILLE

A project of
ACCELERATOR FOR AMERICA

November 2018
GEOGRAPHY OF LOUISVILLE OPPORTUNITY ZONES

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- **Louisville Metropolitan Area**
- **Louisville / Jefferson Metro Government**
- **Louisville Opportunity Zones**
LOUISVILLE METRO ECONOMY
Louisville's economy has performed well over the past decade

**Job Growth is Up**
- 2000-2010: +2%
- 2011-2018: +9%

**Average Monthly Earnings are Up**
- 2000-2010: -2%
- 2011-2018: +8%

**Payroll Jobs are Up**
- 2000-2010: -4%
- 2011-2017: +20%

**Employees Under Age 29 are Up**
- 2002-2010: -8%
- 2011-2015: +8%

**Unemployment is Way Down**
- January 2011: 10%
- January 2018: 3%

*2017 Adjusted*
WEST LOUISVILLE CATALYTIC INVESTMENT: WATERFRONT PARK PHASE IV

The Assets
- $45 million expansion of Louisville’s award-winning Waterfront Park into the Portland neighborhood, currently underway.
- Will be a destination for tens of thousands of people from all over the city, with playgrounds, concerts, and public events, less than a 10-minute walk from downtown.

The Opportunities
- Surrounding area consists of a large, historic warehouse, industrial building stock, and surface parking lots—all ripe for redevelopment.
- Redevelopment of historic buildings could include office, retail, restaurant, and multifamily residential units.
- Waterfront Park Phase I-III catalyzed $1.3 billion in investment in the surrounding area and built a program of more than 150 special events per year with an annual park attendance of more than 2 million visitors.
NEIGHBORHOOD RENAISSANCE AND ARTISANAL MANUFACTURING CATALYTIC INVESTMENT: SMALL BUSINESS OPPORTUNITIES

The Assets
- Rapidly growing small business hub near downtown and thriving NuLu and Highlands neighborhoods.
- Existing capital sources, coworking, and retail spaces.
- Historic residential and commercial architecture and the Olmsted-firm-designed Shelby Park.
- $100 million HOPE VI redevelopment, including energy-efficient mixed income housing and revitalized streetscape on Hancock Street.

The Opportunity
- Invest in start-ups and business expansion in one of the city’s most creative and innovative small business hubs.
- Redevelop existing building stock into office, retail, and housing uses.
Building Awareness/Marketing

- Raise awareness about the program now with local entrepreneurs and high-growth companies that may be eligible for investment from Opportunity Funds

- Work with universities, startup incubators and accelerators, and other ecosystem partners to ready your home region to take advantage of potential opportunity fund investments

- Work with local planners and developers to determine how this new financing model can integrate with existing or anticipated development or infrastructure plans

- Work actively with local, regional, and national funds to make sure they are aware of eligible investment opportunities in your region

- Build in work with community
Guidance for Communities

- Be Proactive
- Urgency is Key
- Think like an Investor
- Layer Additional Programs and Incentives, when needed
Next Steps

- Present to Economic Development Corporation, Downtown Development Authority, and the Southtown and S. Division Grandville Corridor Improvement Authorities

- Collaborate with The Right Place, Inc. to develop a Grand Rapids Prospectus
  - Two community workshops (May/June)
  - Update Economic Development Project Team (June)
  - Report to City Commission on Prospectus Strategy (July)

- Familiarize Opportunity Funds with the Grand Rapids Prospectus

- Prepare policy recommendations to support development in Opportunity Zones
Thank you.