

Opportunity Zones Program

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Presenters



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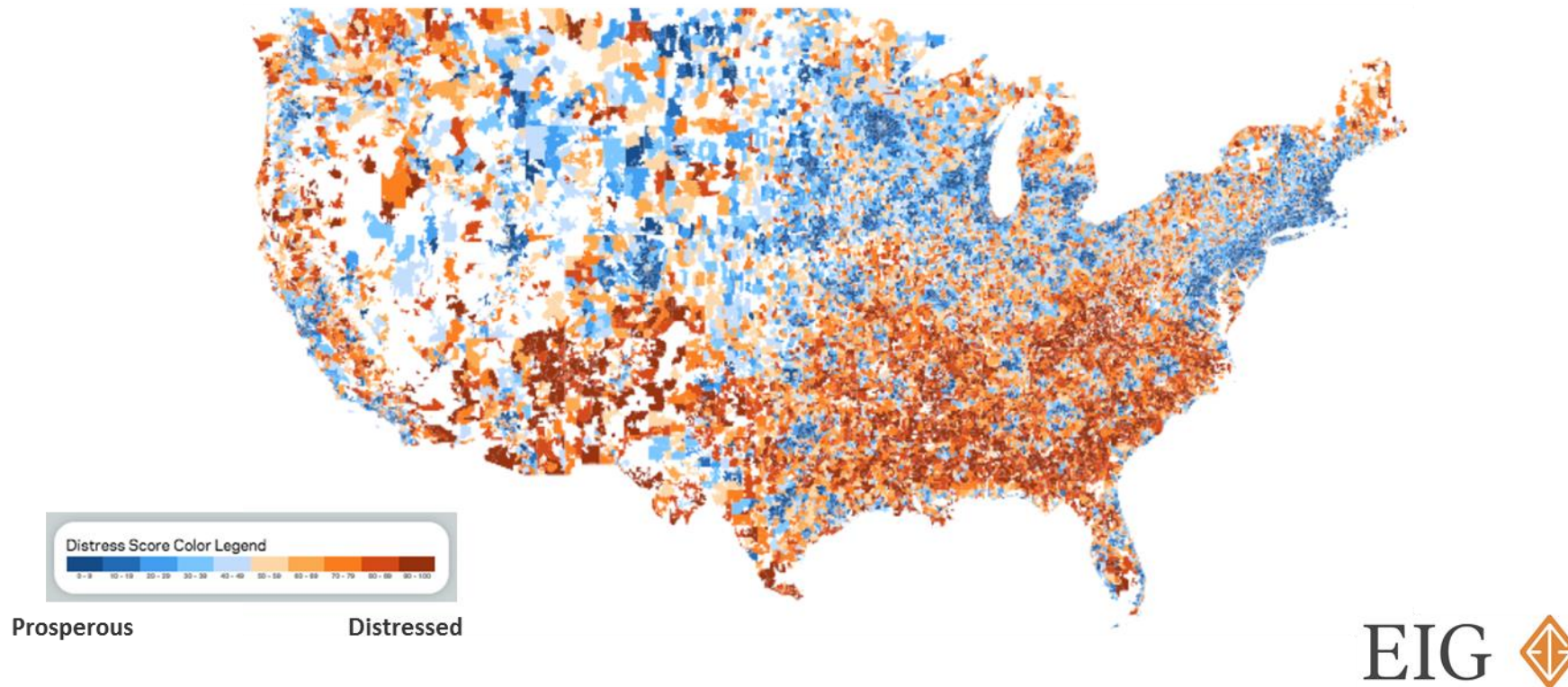
New Markets Support Company

Agenda

- Introduction
- Opportunity Zones Program Overview
- Advocacy
- Implementation Models

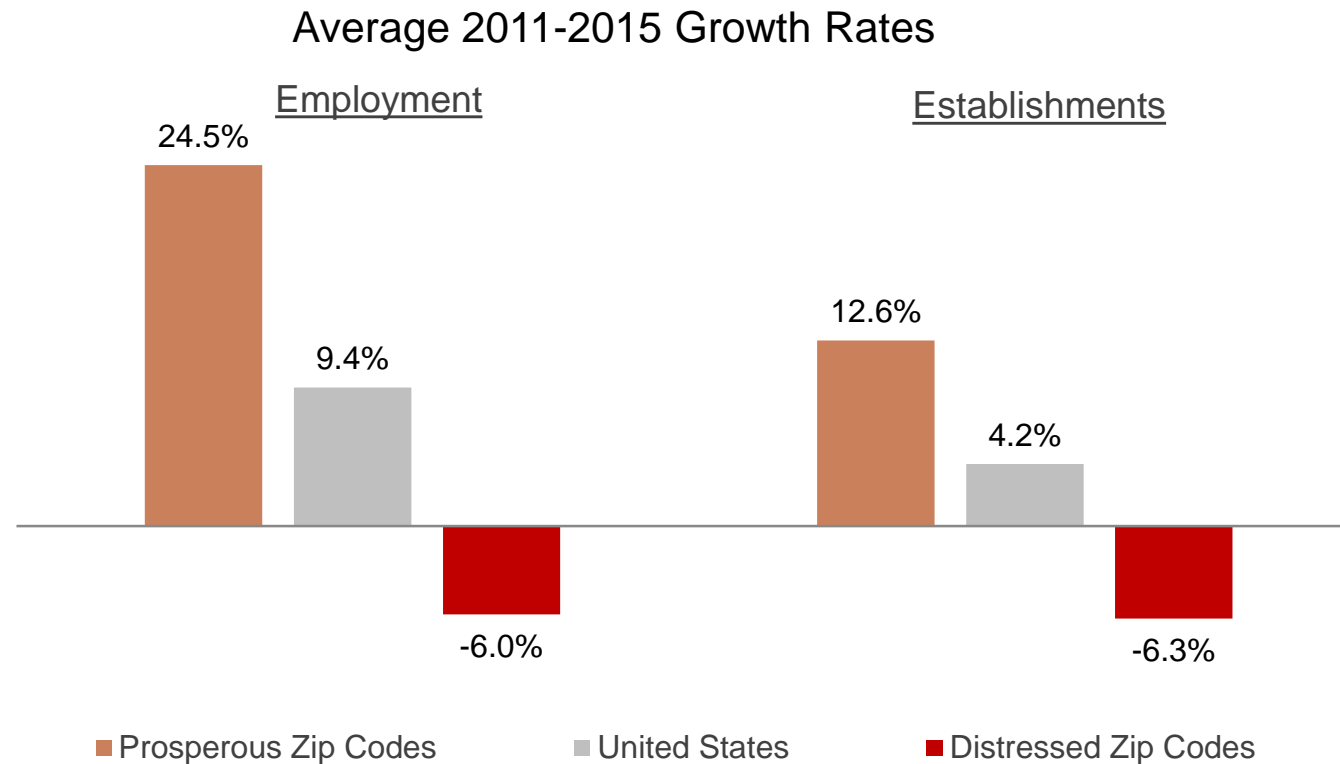
52 million Americans (1 in 6) live in economically distressed communities

- **Minorities represent over half the population in distressed communities**, compared to only about a quarter of the population in prosperous ones. Blacks and Native Americans are more than three times as likely to live in a distressed zip code than they are a well-off one.
- Counties with under 100,000 people are **11 times more likely to be economically distressed** than others.
- The rate of **new business formation in rural (non-metropolitan) areas** has fallen more than twice as quickly as it has at the national level. In 2014, only 49,000 new businesses formed in rural areas, while 57,000 closed.



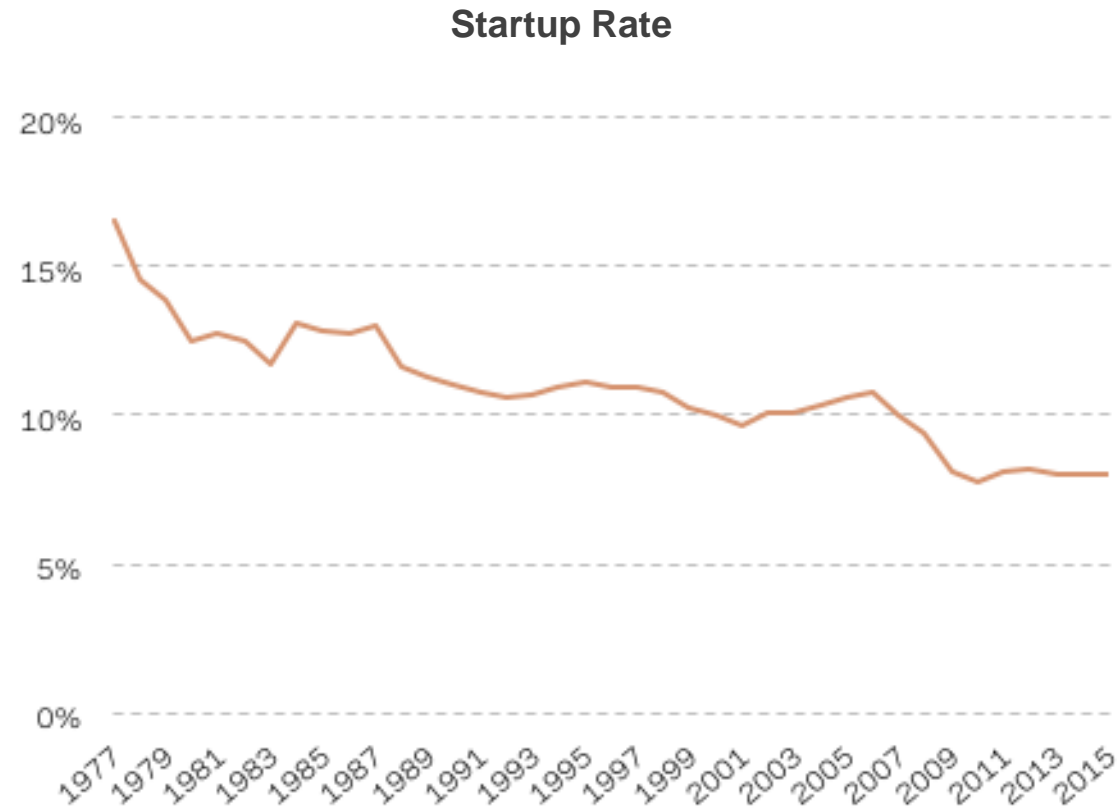
National economic growth fails to reach most of the country's distressed zip codes

- More than half of the country's distressed zip codes contained **fewer jobs and places of business in 2015 than they had in 2000**.
- Conventional approaches to economic development have failed to turn these communities, home to tens of millions of Americans, around.



The country is facing a related crisis in entrepreneurship and new business formation

- The U.S. is **missing about 100,000 startups a year** right now, with repercussions for jobs, wages, innovation, and productivity. Entrepreneurial activity has dried up fastest in places that can least afford it.



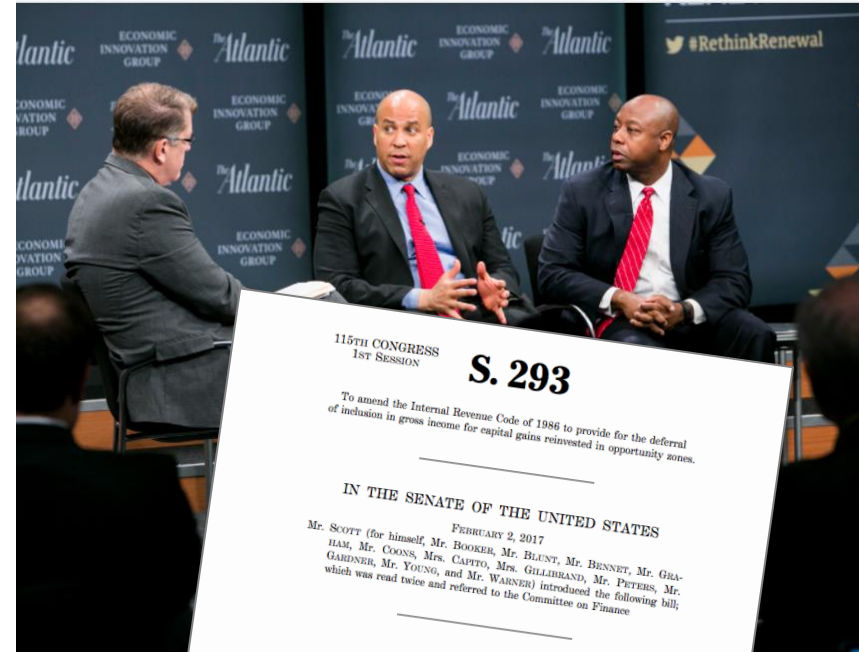
More firms **closed than opened** in three out of every five U.S. metro areas in 2014.

The Opportunity Zones program was developed as an innovative, bipartisan solution to expand the geography of economic growth



Unlocking Private Capital to Facilitate Economic Growth in Distressed Areas

BY JARED BERNSTEIN, CENTER ON BUDGET AND POLICY PRIORITIES
AND KEVIN A. HASSETT, AMERICAN ENTERPRISE INSTITUTE
APRIL 2015



115TH CONGRESS
1ST SESSION

S. 293

To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains reinvested in opportunity zones.

IN THE SENATE OF THE UNITED STATES
FEBRUARY 2, 2017

Mr. SCOTT (for himself, Mr. BOOKER, Mr. BLUNT, Mr. BENNET, Mr. GRAHAM, Mr. COONS, Mrs. CAPITO, Mrs. GILLIBRAND, Mr. PETERS, Mr. GARDNER, Mr. YOUNG, and Mr. WARNER) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide for the deferral of inclusion in gross income for capital gains reinvested in opportunity zones.

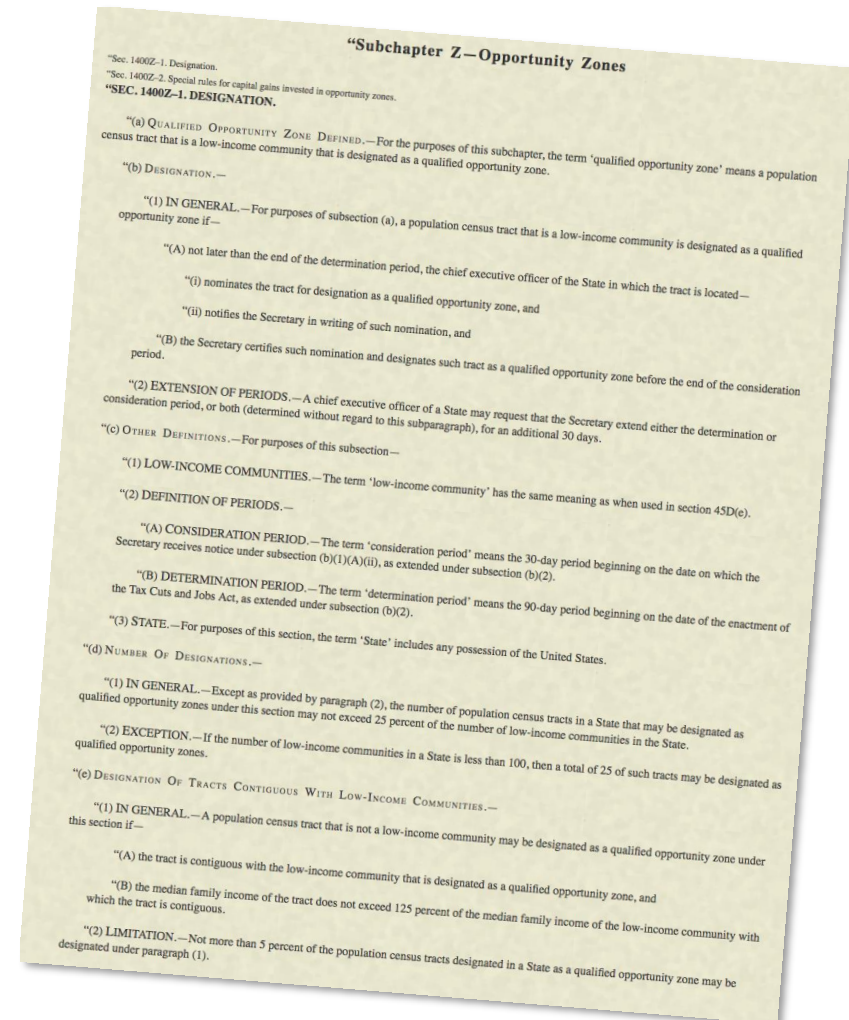
1 *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*
2 **SECTION 1. SHORT TITLE.**
3 This Act may be cited as the "Investing in Opportunity Act".

4 **SEC. 2. OPPORTUNITY ZONES.**
5 (a) IN GENERAL.—Chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following:

6 following:

Opportunity Zones can help catalyze growth and opportunity in communities that desperately need it

- The Opportunity Zones program was established by Congress in the 2017 Tax Cut and Jobs Act to **spur long-term private sector investments** in low-income communities nationwide.
- The program offers a frictionless way to **reinvest capital gains** into distressed communities through Opportunity Funds, in exchange for a graduated series of incentives tied to long-term holdings.
- This program is the first new national community investment program in over 15 years, and has the potential to be the largest economic development program in the U.S.



Principles to keep in mind

A few important things to keep in mind before we dive into the specifics:

- This is an **investor incentive**, not one that is awarded to individual companies.
- All incentives pertain to the tax treatment of an investor's **capital gains**.
- Geared toward **new** businesses and projects.
- The incentive is **market-based**—investors will determine how large or small it eventually becomes by how many investable opportunities they identify.
- **Capital alone isn't a strategy**. States and localities are still on the hook for other complementary factors that will determine whether Opportunity Zones achieves its maximum potential.

How do Opportunity Zones get designated?

- Governors of every U.S. state and territory can nominate up to **25 percent of their low-income/high-poverty census tracts** as Opportunity Zones. About 40% of the average state's census tracts are therefore eligible to be nominated.
- Governors have **90 days from enactment (ending March 22, 2018)** to submit their nominations to the U.S. Treasury Secretary in writing and may request a 30-day extension.
- Governors are given broad discretion when it comes to designating zones that meet the basic criteria, although they should **consult with local leaders**. Congress also advised governors to give preference to areas that:
 1. Are the focus of **mutually-reinforcing state, local, and private development initiatives**.
 2. Have demonstrated success in utilizing programs such as **NMTC, Enterprise Zones, or Promise Zones**, in the past.
 3. Suffered major **recent job losses from plant closures or relocations**.

How do Opportunity Zones work?

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



**Temporary
Deferral**

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



**Step-Up
In Basis**

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.



**Permanent
Exclusion**

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.

What are Opportunity Funds?

- **What?** Opportunity Funds (**O-Funds**) are investment vehicles organized as corporations or partnerships for the purpose of investing in qualified Opportunity Zone property.
 - Funds 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 O-Fund.
- **Who?** Institutional investors and investment banks, impact investors, CDFIs, multifamily offices, philanthropies, venture capital partnerships, angel groups, REITs and more can **invest in or establish their own** Opportunity Funds.
 - We expect funds to **differentiate themselves** along multiple lines, from geographic scope to investment type to management style.
 - **Localities** may be able to set up their own funds as well.

What can Opportunity Funds invest in?

- There are three types of business property eligible for investment:
 - Original-issue **stock** of a qualified opportunity zone **corporation**.
 - **Interest** in a qualified opportunity zone **partnership**.
 - **Tangible property** used in qualified opportunity zones.
 - If the original use does not commence with the O-Fund investment, then the property must be substantially improved in order to qualify.
- In laymen's terms, that means there are a lot of investment opportunities: **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.*

How do Opportunity Zones build compare to other geographically-targeted community investment programs?

The Opportunity Zones program incorporates lessons learned and builds on past place-based economic development incentives in several ways:

- All incentives pertain to **capital gains**, tapping into resources that were previously on the sidelines of economic development.
- It is **targeted**: By narrowing the number of Low-Income Community census tracts that are eligible, the program concentrates capital where other programs spread it too thinly.
- It is **simple**: After meeting basic qualifications, investors and businesses face none of the wait times or micromanagement that limited the uptake of past programs.
- It is **flexible**: The program is specifically designed to foster various types of investment.
- It provides **no up-front subsidy** and doesn't pick winners: Funds and investors make their own decisions.
- It rewards **patient capital**: All incentives are tied to the longevity of the investment.
- It is **designed more for startups** than incumbents.
- It is **scalable**: With no cap from appropriations, the program can scale to match investor demand.
- It gives investors a **stake in communities' future**: Most programs reward individual projects; this one ties investor payoff to community success.

There are three stages of next steps

1. Zone Designation (immediate)

- Work with your state counterparts to **provide local market intelligence** so that your region's highest priority, opportunity, and need census tracts get included in your state's nominations. Hold your state elected representative to account for holding bottom-up consultations.

2. Setting up Funds (2018)

- Raise awareness about the program among local banks, financial institutions, investors, and business networks to **encourage the establishment of Opportunity Funds** specializing in your state or region.
- Think about whether and how **you and your partners** should establish an Opportunity Fund for your region.

3. Facilitating investment (on-going)

- 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 the program.
- Work with local planners and developers to determine how this new financing model can integrate with existing or anticipated **development or infrastructure plans**.
- Liaise actively with local, regional, and national funds to make sure they are **aware of eligible investment opportunities** in your region.

EIG brings together leading entrepreneurs, investors, economists, and policymakers from across the political spectrum to address America's economic challenges.

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Zone Designation Timeline

The clock is already ticking!

The Determination Period will end on **March 21, 2018**, with a possible extension on a state-by-state basis until **April 21, 2018**.

States that miss these deadlines will be **excluded from participating** in this new program.

State and Local Advocacy: Some Considerations

States should prioritize targeting of resources within zones over maximizing geographic coverage, so that there can be sufficient investment of resources.

“Severe economic distress” census tracts (NMTC definition) should be part of every nomination to drive resources to highest need areas.

Include a balance of rural and urban neighborhoods to diversify investment activity and ensure rural markets that have lost significant jobs and population are eligible for investment.

State and Local Advocacy: Submit Tract Nominations

Use the [CDFI Fund eligibility map](#) to identify census tracts in your state eligible to become Qualified Opportunity Zones.

After compiling this information, check if your state has set up an Opportunity Zone websites (the full list on can be found on the NMSC website [here](#)) and follow the nomination process. The process for nominating tracts will vary by state.

If your state doesn't have a specific Opportunity Zone website, send nominations to your state's governor and head of economic development via e-mail or regular mail.

State and Local Advocacy: After the Nominations

After the formal nomination process, advocate for states and municipalities to create new programs or utilize existing incentive programs to:

- Enhance the investor benefits of this program and drive investment opportunity to their state and its target markets.
- Ensure that benefits of Opportunity Fund investments accrue to residents of the Opportunity Zones and create quality job opportunities or bring critical services to residents.



Federal Advocacy: Treasury and IRS

For investors to begin utilizing this new program, the U.S. Treasury Department must act to provide guidance to the states on making their Opportunity Zone designations, publish rules for certifying Opportunity Funds, and publish rules for on-going compliance and reporting.

1. Educate the Administration on the importance of this program and need for timely implementation.
2. Provide guidance to the Treasury Department on rule making that will foster program success.

Example: LISC Comment Letter to the IRS

LISC submitted [comments](#) to the IRS on February 22, 2018 with the following recommendations:

Designation of Opportunity Zones

- Review and approval of Opportunity Zones should be delegated to the CDFI Fund.
- Treasury should establish an electronic portal for submission of requests.
- States should be instructed to submit a narrative explanation of the criteria used to select their zones, including the extent to which the zones meet one or more of the elements specified in the Conference Report that accompanied the Tax Bill.

Example: LISC Comment Letter to the IRS (cont.)

Certification of Qualified Opportunity Funds

- Should be delegated to the CDFI Fund.
- An Opportunity Fund must meet its “legal entity” and “mission” tests at the time of application, but the “90% assets” test should be measured after securing investment capital and as part of ongoing compliance requirements.
- Opportunity Funds should be required to make a commitment to achieving certain community development outcomes as a condition of certification.
- Treasury should collect some baseline information about the Fund’s business strategy (e.g., markets served, asset classes) at the time of certification, and make this information publicly available so that investors and investees can seek out Opportunity Funds in their markets.
- Treasury should identify, at the time of certification, all anticipated reporting requirements and data points that will be needed for ongoing compliance or outcome reports.

Implementation Models

- Program Impact
- Investment Focus
- Investors
- Partnerships

Additional Resources

- LISC/NMSC's [Opportunity Zone webpages](#)
- LISC and NMSC [Opportunity Zone overview](#) (pdf)
- The [Economic Innovation Group's](#) Opportunity Zones page and resources
- [Governors' offices](#) contact information and websites
- [State's Opportunities Zone sites](#)
- The [Investing in Opportunity Act](#)
- U.S. Department of the Treasury: [Community Development Financial Institutions Fund \(CDFI\) Opportunity Zones Resources](#)
- [IRS Revenue Procedure](#)

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