Opportunity Zone Overview

May 15, 2019
FULFILLING THE PROMISE

OPPORTUNITY ZONES

Ensuring equitable, inclusive growth in communities

- The potential to transform communities, grow small businesses and expand opportunity pathways
- Opportunity Funds to support and complement ongoing work to achieve broad community benefits
There are three core elements to the program

Zones:
States and territories designated up to 25 percent of Low-Income Community Census tracts in their state to be certified by Treasury as Opportunity Zones.

Funds:
Opportunity Funds are self-certified investment vehicles organized as corporations or partnerships for the purpose of investing in qualified Opportunity Zone assets. All investments that seek to take advantage of the provision must flow through Funds.

Investments:
Funds make equity investments into businesses and property in Opportunity Zones. Qualified assets are the stocks of qualified companies, interests of qualified partnerships, or direct ownership of qualifying tangible property.
Taxpayers can get capital gains tax deferral (& more)

Qualified Opportunity Funds

for making timely investments in

Qualified Opportunity Zone Property

which invest in
3 Tax Incentive Benefits

1. Gain Deferral
2. Partial forgiveness
3. Forgiveness of additional gains
## Opportunity Zone Incremental Benefit

<table>
<thead>
<tr>
<th>23.8% Tax Rate</th>
<th>4 Year</th>
<th>5 Year</th>
<th>7 Year</th>
<th>12/31/2026</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard After Tax IRR</strong></td>
<td>6.00%</td>
<td>6.00%</td>
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<td>6.00%</td>
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<tr>
<td><strong>Incremental Opportunity Zone Benefit</strong></td>
<td>1.44%</td>
<td>2.08%</td>
<td>1.95%</td>
<td>1.71%</td>
<td>3.08%</td>
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<tr>
<td><strong>Opportunity Zone Investment IRR</strong></td>
<td>7.44%</td>
<td>8.08%</td>
<td>7.95%</td>
<td>7.71%</td>
<td>9.08%</td>
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<tr>
<td><strong>Percentage Increase</strong></td>
<td>35%</td>
<td>32%</td>
<td>29%</td>
<td>51%</td>
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</tbody>
</table>

- **Standard After Tax IRR**
- **Total IRR**

The graph shows the comparison of Standard After Tax IRR and Total IRR over different time periods with a 23.8% tax rate.
Colorado’s Opportunity Zones

126 census tracts
choosecolorado.com/oz

For a list and maps of all opportunity zones nationwide go to:
https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx
Qualified Opportunity Fund - Purpose

An investment vehicle organized as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property.
Certification Process

- An eligible taxpayer self-certifies to become a certified qualified opportunity fund.

- No approval or action by the IRS is required.

- A taxpayer merely completes a form and attaches that form to the taxpayer’s federal income tax return for the taxable year.

- The return must be filed timely, taking extensions into account.
Qualified Opportunity Zone Business Property

✓ Tangible property used in a trade or business

✓ Acquired by purchase from an unrelated party (20% standard) after December 31, 2017

✓ During substantially all of holding period, substantially all the use is in a Qualified Opportunity Zone

✓ Original use in the Qualified Opportunity Zone commences with the taxpayer

OR

✓ Taxpayer substantially improves the property during any 30-month period after acquisition, additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such period
Readily Identifiable Investment Types in Opportunity Zones

- Commercial Real Estate Development and Renovation in Opportunity Zones
- Opening New Businesses in Opportunity Zones
- Expansion of Existing Businesses into Opportunity Zones
- Large Expansions of Businesses already within Opportunity Zones
Colorado’s Opportunity Zone Program

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How does it work?

Taxpayers can get capital gains tax deferral (& more)

Qualified Opportunity Funds for making timely investments in

Qualified Opportunity Zone Property (Primarily real estate or businesses)

Source: Novogradac and Company
CO Opportunity Zone Program

The Mission: Position Colorado as a leading destination nationally for capital investment in Opportunity Zones, and use this investment to benefit distressed communities

- Designating 126 Opportunity Zones across the state
- Spreading the word to investors, community leaders, developers and other stakeholders
- Empowering communities to understand how Opportunity Zones work and how they can benefit
- Helping capital and projects find each other
Nomination

- Thorough, transparent, analytical process
- High degree of consultation and collaboration
- 126 census tracts designated
- Diverse portfolio attractive to a variety of investment types
Colorado’s Opportunity Zones

Interactive map: www.choosescolorado.com/oz
Education

- Events
- Community leader trainings
- Industry roundtables
- Website with resources and email list – choosescolorado.com/oz
Identify your general OZ strategy

Which strategy best describes your community?

- Trying to constrain certain investments to avoid displacement
- Seeking capital for specific project or area
- Seeking any capital to counter disinvestment

Nomination
Education
Community Support
Facilitation
What is a Prospectus?

• Investment memorandum designed to attract capital to a community
• Tells data-backed story of a community based on the interplay of three factors: sectors, communities, and institutions
• Identifies specific developable projects, and make a case for why those projects will see a return, including additional incentives that are applicable (Opportunity Zone, TIF, Enterprise Zone, NMTC, etc)
• Not a pure marketing document – highlights opportunities, risks, and mitigation strategies
• See choosecolorado.com/oz for examples + grant application
Facilitating Investment

**Tools:**

- Pitch events
- Co-invest.co = new investment matching website
- Engaging financial service providers
Guiding Questions for Communities

• Overall:
  – What types of investment does the community need? (i.e., housing, infrastructure, entrepreneurship)
  – What assets does the community have available? (i.e., town-owned land, anchor institutions, infrastructure, workforce)
  – What would be the top ~5 most developable projects that would benefit the community?

• For particular OZ projects:
  – What is the projected rate of return?
  – What can the community add to make them more attractive? (i.e., additional incentives, fast-tracked permitting, etc.)
  – Who are the participants we need to be involved? How and where can we reach them?
Who invests in what?

Investors in LIHTC

- Direct Investors
- Syndicators
- Insurance Co.

2017: $14B

Investors with Capital Gains

- Family Funds
- Mutual Fund Co.
- 401k Fund Co.

2017: $6T

- Key: Finding the investors with capital gains and experience in LIHTC.
- Difficulty: Max benefits of OZ require LIHTC closing in 2019 with declining benefits thereafter.
- Can we grow the market to improve development outcomes?
Lower-Tier Preview and Concerns

- Expect ~$150M annual fund offering(s) for LIHTC OZ developments
- Investors include:
  - Existing LIHTC investors with a realized capital gain (negative capital account → exit taxes payment)
  - Mutual funds, life insurance companies, 401k funds
- Can provide 2-4 additional cents of LIHTC equity
  - Alternatively – suggest front loading equity to reduce construction cost.
- Can provide exit tax ‘forgiveness’ for the LP due to OZ investment
  - Crucial for 4% transactions with significant third-party sources
- Timing main concern – what will happen in 2020 and beyond?
- Any entity can self-certify – choose the right investor partner
MO-ZONES

CITY OF MONTROSE
a rural community approach

DIRECTOR OF BUSINESS INNOVATION
Chelsea Rosty
Opportunity Zone Approach

1. Bye- bye red tape
2. This is not for the risk adverse
3. Act now
4. Be specific
5. Be open to every....well....opportunity
Success occurs when opportunity meets preparation.

Zig Ziglar
CONNECT WITH US

→ Invest
→ Partner
→ Explore!

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#MontroseDART