



Opportunity Zones Program

An Early Overview of Program Details
and What's Ahead

February 7, 2018



Agenda

- **Program Overview**
 - Background
 - Opportunity Funds
 - Opportunity Zones
 - Types of Investment
 - Tax Incentives for Investors
- **Steps Toward Implementation**
 - Rulemaking Process to Finalize the Law
 - Designating Opportunity Zones
 - Guidance on Certifying Opportunity Funds
- **State Mapping Tools**
 - Opportunity Zones: Census Tract Eligibility
 - Demonstration
- **Additional Resources**

[Rachel Reilly Carroll](#) - Creative Capital • [Olivia Barrow](#) - Public Policy • [Zack Patton](#) - Opportunity 360

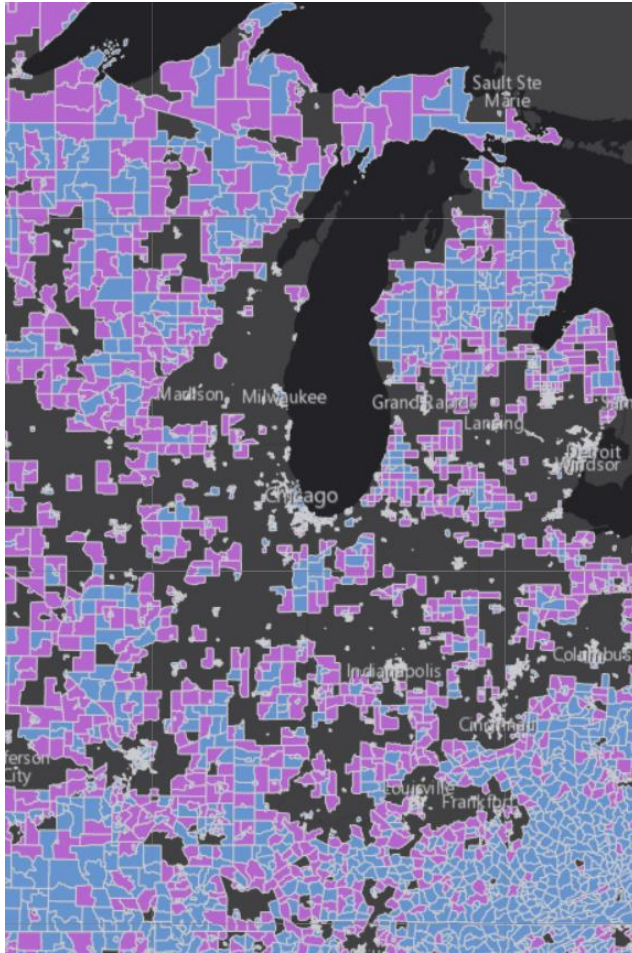
Background

- Originally introduced in the Investing in Opportunity Act
 - Bipartisan public policy organization, Economic Innovation Group, developed the Opportunity Zones concept in 2015
 - Introduced in the 114th and 115th Congress
 - Senators Tim Scott and Cory Booker, Congressmen Pat Tiberi and Ron Kind
- Enacted as part of 2017 tax reform
 - Tax Cuts and Jobs Act
- Designed to promote economic recovery by driving long-term investment capital to rural and low-income urban communities throughout the nation
- Uses tax incentives to encourage private investment in impact funds that connect investors with community investing opportunities.

Opportunity Funds

- New class of investment vehicle authorized to aggregate and deploy private investment to support Opportunity Zone Property located in Opportunity Zones.
 - Certified by Treasury
 - Optimized for flexibility
- Tap \$2+ trillion in unrealized capital gains
 - Alternative to ~23.8% capital gains tax
 - Solution for investors who lack the information and ability to execute investments in rural and low-income urban communities
 - Pooling capital through a fund structure lowers barrier to community investing
 - Responsive to market demand
- Fund Managers
 - Private entities
 - Community Development Financial Institutions, asset managers, etc.
 - Potentially government and quasi-government entities

Opportunity Zones



- Census tract designated to receive private investment through Opportunity Funds
 - 10-year designation
- Governors authorized to offer recommendations for Zone designations (March 21, 2018)
 - Missouri has issued RFP
 - No guidance on what happens if governors do not submit recommendations
- Strategic, informed decision-making is key

Types of Investment

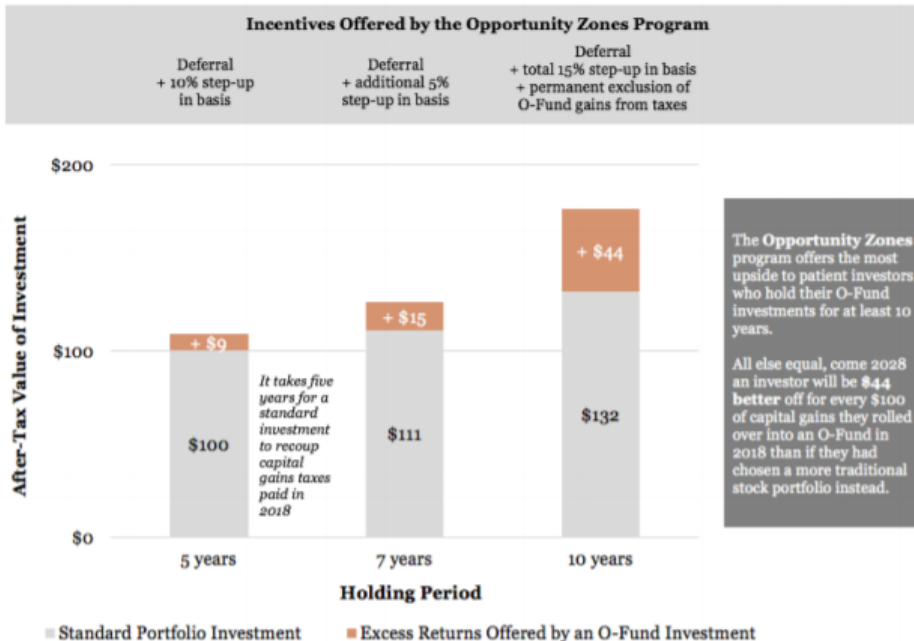
- Opportunity Funds are authorized to invest in Opportunity Zone Property:
 - Stock in a domestic corporation
 - Capital or profits interest in a domestic partnership
 - Tangible property used in a trade or business of the Opportunity Fund that substantially improves the property

- Fund Flexibility
 - Multiple investments across asset classes and geographies, or singular investment.

- Type of Capital
 - Equity
 - Market will determine preferred return and risk tolerance, as well as where capital is invested and which asset types are supported.

Tax Incentives for Investors

Figure 1. Investing in an Opportunity Fund vs. a Standard Stock Portfolio
Scenario: A Capital Gain of \$100 is Reinvested in 2018



* Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and alternative investment.

- U.S. investors are eligible to receive tiered tax benefits associated with capital gains reinvested in Opportunity Funds.
- Temporary tax deferral
 - Recognized at exit or 12/31/2026
 - Whichever comes first
- Step-up in basis
 - 5-year min. = Increased by 10%
 - 7-year min. = Increased by 15%
- Gains accrued on investment in Opportunity Fund permanently excluded from taxable income
 - 10-year minimum

[The Tax Benefits of Investing in Opportunity Zones](#)

Implementation: Finalizing the Law

- Treasury must follow formal administrative procedures to finalize the rule.
- Anticipated process:
 - Treasury will propose a structure for implementing the new rule.
 - Treasury will issue a notice of proposed rulemaking and will request public comments on the proposal.
 - Stakeholders will provide comments and recommendations for structuring the program.
 - Treasury will review the comments and issue a final rule that formalizes the program.
- The timeline for finalizing the rule is not clear.

Implementation: Designating Opportunity Zones

- Governors must submit Opportunity Zone nominations to Treasury by March 21, 2018.
 - Treasury has not yet provided guidance on submitting nominations.
- Treasury must approve or provide feedback within 30 days of the governor's submission.
- Both governors and Treasury can request a 30-day extension.

Implementation: Certifying Opportunity Funds

- Treasury will certify Opportunity Funds.
 - Existing Community Development Entities may provide the structure for certifying Opportunity Funds.
- The statute outlines two requirements of the Opportunity Funds:
 1. Must be organized as a corporation or a partnership, and
 2. Must invest a minimum of 90% of assets in Opportunity Zones.
- It is unclear whether additional qualifications will be considered.

Opportunity Zones: Census Tract Eligibility

- **Low-Income Communities**
 - Section 45D(e) - New Market Tax Credit program
 - Poverty Rate
 - Median Family Income Comparison
 - Metropolitan Area?
 - High Migration Rural County?
- **Tracts Contiguous to Low-Income Communities**
 - Contiguity
 - Median Family Income Comparison

Opportunity Zones: Census Tract Eligibility

- Each state can designate up to 25% of eligible census tracts
 - Based on Low-Income Community definition
- Exemption: Up to 5% of the tracts designated could be contiguous instead of Low-Income Community tracts

Example:

- A state has 400 Low-Income Community tracts
- This state can designate up to 100 Opportunity Zones
- As many as 5 of these could be eligible due to contiguity; the other 95 would have to be Low-Income Community tracts

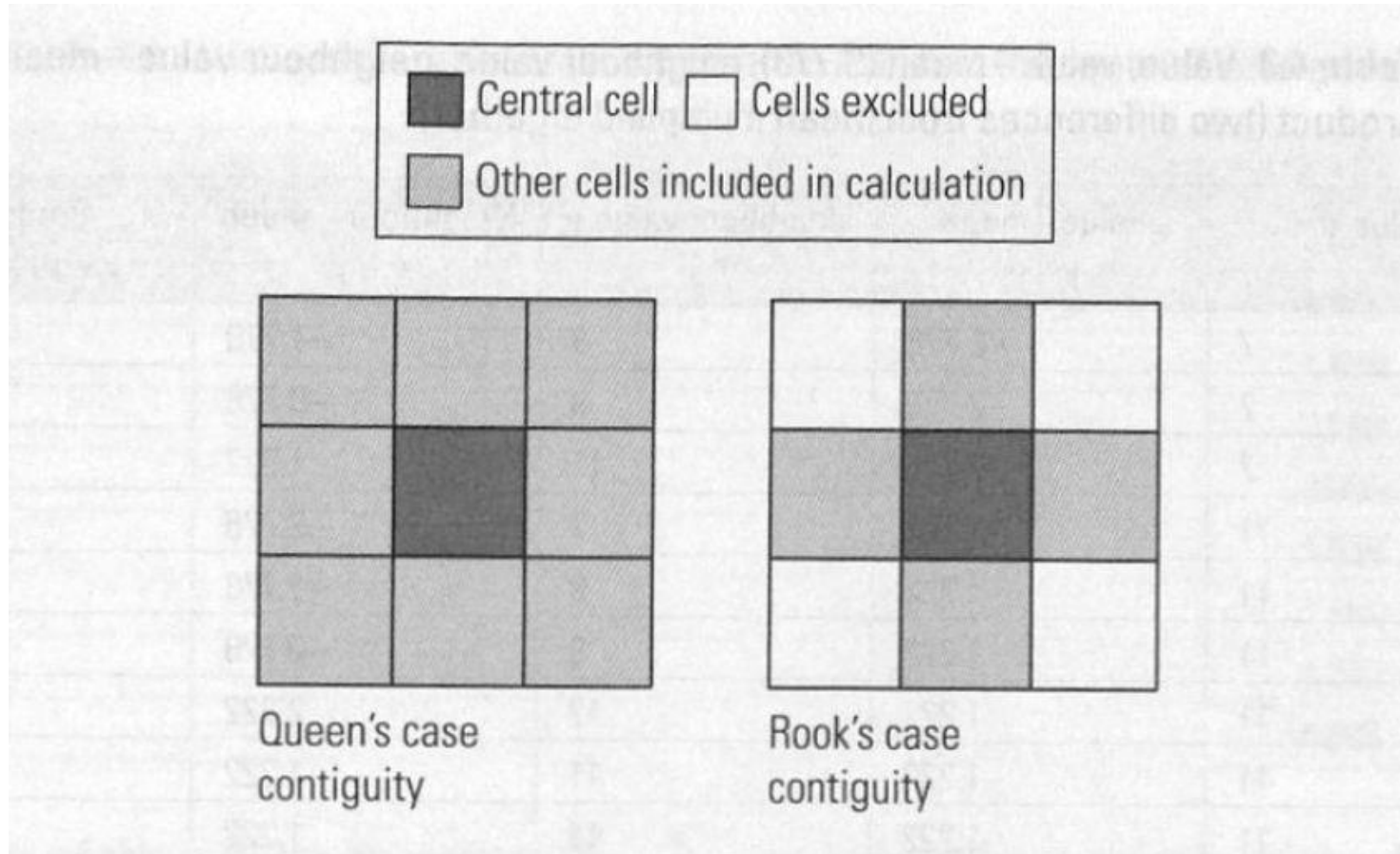
Opportunity Zones: Census Tract Eligibility

- Of the ~74,000 census tracts nationwide:
 - Nearly 32,000 Low-Income Community tracts
 - An additional 9,700 are eligible contiguous tracts
- Applying 25% Cap
 - Nearly 8,100 tracts could be designated as Opportunity Zones
 - About 11% of all census tracts nationwide

Opportunity Zones: Technical Notes on Eligibility

- Recommend using 2011-2015 American Community Survey data
 - Can be downloaded from the [CDFI Fund's website](#)
 - Unknown if Treasury will accept 2012-2016 ACS data
- Possible for contiguity to occur across state lines
 - States would need to coordinate
- Contiguity determined using Rook's case

Opportunity Zones: Technical Notes on Eligibility



Additional Resources

- Enterprise Community Partners
 - [Opportunity Zones Program Landing Page](#)
 - [Enterprise Blogs on the Opportunity Zones Program](#)
- Economic Innovation Group
 - [Opportunity Zones Program Landing Page](#)
 - [The Tax Benefits of Investing in Opportunity Zones](#)
 - [Guidance for Governors](#)
- Missouri Department of Economic Development
 - [Opportunity Zones Program Landing Page with Opportunity Zone Designation RFP](#)
- National Governors Association
 - [Staff Directories & Contact Information](#)
- National Development Council
 - [Unpacking the Investing in Opportunities Act webinar](#)
- Novogradac & Company
 - [Opportunity Zones Program Resource Center](#)
- Senator Tim Scott
 - [Video message](#)

Thank You!

