Nominating Opportunity Zones

Understanding Governors’ Responsibilities and Using Enterprise’s Opportunity360 State Mapping Tool

February 28, 2018
Agenda

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▪ Additional Resources and Q&A

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Background

- Originally introduced in the **Investing in Opportunity Act**
  - 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 **address uneven, post-recession economic recovery** by promoting growth through long-term investments in rural and low-income urban communities throughout the nation

- Uses tax incentives to encourage private investment in Opportunity Funds which **connect investors to distressed communities**.

- **Not a tax program**, it’s a tax benefit for individuals and corporations
Opportunity Funds: Background

▪ New class of investment vehicle authorized to aggregate and deploy private investment to support Opportunity Zone Property located in Opportunity Zones.

▪ Taps $2 - 6 trillion in unrealized capital gains
  ▪ Alternative to ~23.8% capital gains tax
  ▪ Solution for investors lacking options to place funds in distressed communities
  ▪ Pooling capital through a fund structure lowers barrier to making investment
  ▪ Equity capital responsive to market demand
    ▪ Market will determine preferred return and risk tolerance, as well as where capital is invested and which asset types are supported.

▪ Fund Managers
  ▪ Private entities - CDFIs, traditional asset managers, etc.
  ▪ Potentially government and quasi-government entities
## Key Dates and Timeline for Implementation

### Opportunity Zone Nominations:
- **March 21**  
  - Governors must submit Opportunity Zone nominations to Treasury  
  - 30-day extension may be requested by this date, moving deadline to April 20
- **April 20 – May 21**  
  - Treasury will approve Zone nominations  
  - 30-day extension could be filed through June 18; not anticipated

### Guidance on Opportunity Funds: Best Guess, Q3 2018
- Treasury will release guidance on Fund qualifications and process for certification

### Implementation of Law: Best Guess, Q4 2018 – Q1 2019
- Unclear whether it will be a proposed rule making or interim rule making process

### Creation of / Investment in Funds: Best Guess, Q1 – Q2 2019
- Funds can operate once the program rules are released
Submiting Opportunity Zone nominations is the only formal role of governors, state CEOs
- Includes District of Columbia and U.S. territories

If deadline is missed, the state will be ineligible to receive qualified investment over the next decade

10-year Designation Period.

Strategic and transparent decision-making at this moment is critical
Considerations for Opportunity Zone Nominations

Census tracts at the nexus of need and opportunity
Poised to absorb private equity capital in a way that promotes positive economic growth

Intentional Investment

- Alignment with mutually reinforcing state resources or federal programs as well as local economic development initiatives
- How does this align with long term priorities or infrastructure investments?
  - Workforce retention and preserving affordable homes
  - Attracting human capital and talent to rural campuses
  - Regional expansion of public transportation
  - Brownfield redevelopment

Equitable Development and Economic Growth
Planning now to ensure that the proper policies and resources are in place to steward responsible economic development and community revitalization.

- Promoting Opportunity through Equitable Transit-Oriented Development (here)
- Public Benefit from Publicly Owned Parcels (here)
Considerations for Governors & Local Officials

- How do you prevent displacement and keep wealth in communities where the market is responsive and a large amount of capital is invested?

- In communities where the market has not been responsive, how do you incent investment?

- What tools can be used to encourage the types of investment reflective of local priorities and desired societal outcomes?
Role of Governors & State CEOs

- EIG has developed guidance on Opportunity Zone nominations.

- **Immediately:**
  - Establish a process for nominating Opportunity Zones, and
  - Actively solicit input from mayors, county commissioners, local economic development organizations, and other stakeholders to ensure that nominations align with local priorities.

- EIG also recommends assigning a point person or agency to lead state efforts including Opportunity Zone nomination, investor outreach, and public support.

- We urge governors to request 30-day extension given new census tract guidance released by Treasury yesterday (February 27).
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?*
  - Low Population Tract? **

- **Tracts Contiguous with 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
  - Exception for states with less than 100 tracts

- 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

CDFI Fund February 27th Update
- high migration rural & low population tracts
- Changed contiguity analysis
- Fixed some problems

Implications
- 168 new LIC’s
- 1,007 new eligible contiguous tracts
- 72 formerly eligible contiguous tracts removed
Opportunity Zones: Census Tract Eligibility

CDFI Fund February 27th Update

- 24 states can designate additional tracts
  - AL, CA, CO, FL, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MO, NE, NY, OH, OK, PA, SC, TX, VA

- Eligibility landscape in other states has changed as well
Opportunity Zones: Census Tract Eligibility

- Of the 74,000 census tracts nationwide:
  - Over 34,000 are Low-Income Community tracts
  - An additional 11,000 are eligible contiguous tracts

- Applying 25% Cap
  - 8,135 tracts could be designated as Opportunity Zones
  - About 11% of all census tracts nationwide
Opportunity Zones: Technical Notes on Eligibility

- Can use 2015, 2016 ACS data or a combination
- Contiguity can occur across state lines
  - States would need to coordinate
- Contiguity determined using Queen’s case (this is new)
State Example: Colorado

- Engagement with local stakeholders like Enterprise Zone Administrators
- Public Input Process and Portal
  - POC for investors and fund manager, created template LOIs
  - Outlined the state’s priorities for Zones
- Index for Need - Areas that have experienced economic distress and have impediments to investment that might be overcome
- Index for Opportunity - Main Street Communities, Creative Districts, Enterprise Zones, higher education institutions, federal labs, major hospitals, significant rural airports, business and labor density, presence of advanced industry and exporting businesses.

Colorado Opportunity Zone Website
State Example: Minnesota

- Identifies **how public is being engaged**; encourages collaboration
  - Major cities, Tribal Nations, Counties
  - Initiative Foundations agreed to convene

- POCs at **both DEED and Minnesota Housing**

- Principles to **Prioritize and Rank** Zones
  - Needs of low-income community partners serving zone,
  - Potential for positive impact to further equity, inclusion,
  - Commitment(s) to support the zone by industry, education, nonprofits and governments,
  - 5-year development including affordable and workforce housing and economic development,
  - Engagement with potential Opportunity Fund managers,
  - Businesses and emerging businesses with investment potential in the zone,
  - Potential positive impact on most distressed communities

Minnesota Opportunity Zone Website
State Example: Mississippi

- **Public Input Process and Portal**
  - March 5 deadline
  - Provides an e-mail as POC for inquiries

- Provides an *evaluation framework for Zones*, which is reinforced in its nomination application
  - “submissions evaluated based on factors such as population, population change, per capita income, availability of potential sites for industrial development, and proximity to institutions of higher learning, in addition to regional distribution.”

- Potential **alignment with neighboring states** to boost economic growth
  - DeSoto County, MS = part of Memphis MSA

Mississippi Opportunity Zone Website
Additional Resources

- CDFI Fund, Treasury - Opportunity Zones Resource Page
- Enterprise Community Partners - Opportunity Zones Information Page
- Economic Innovation Group - Opportunity Zones Landing Page

More State Websites for Opportunity Zones:
- Connecticut Department of Economic and Community Development
- Idaho Department of Commerce
- Indiana, Governor’s Office
- Kansas Department of Commerce
- Kentucky Cabinet for Economic Development
- Missouri Department of Economic Development
- North Carolina Department of Commerce
- Ohio Development Services Agency
- South Carolina Department of Commerce
- Tennessee Department of Economic and Community Development
- West Virginia Department of Commerce

Know of others? E-mail Rachel Reilly
For More Direct Assistance

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