

# OPPORTUNITY ZONE OVERVIEW

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CLAYTON COUNTY

JUNE 2019

FAEGRE BAKER  
DANIELS

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# BRIEF OVERVIEW OF OZ LAW

## Qualified OZ Census Track (QOZ)

- Must me Low Income Communities (LIC) test
- Nominated by Gov. & Approved by Treasury
- Cannot be altered at this time

## Qualified OZ fund (QOF)

- Must be a pass- through entity
- Funds self certify by completing & submitting a form with Federal tax records

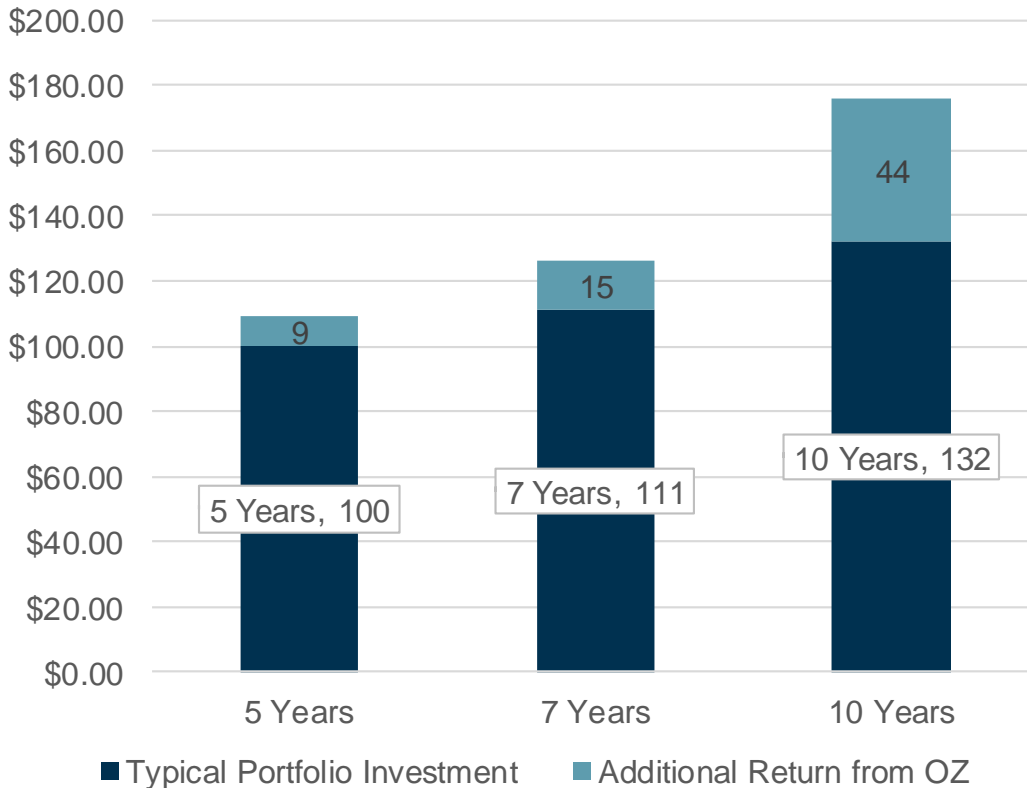
## Qualified OZ Business or Property (QOZB or QOZP)

- Acquired after Dec 2017
- Property must be located substantially\* within QOZ
- Business must generate >50% of sales within OZ and meet 1 of 3 Safe Harbor operating tests

- ▷ OZ Investments must be made in approved OZ census track, through Qualified OZ funds and into Qualified OZ businesses or properties
- ▷ Qualified OZ Funds cannot hold >5% in financial instruments nor spend >10% of capital on fees
- ▷ OZ properties require the equivalent of 100% of acquisition cost invested in “substantial improvements” to qualify
- ▷ Operating business must generate >50% of sales within Qualified OZ and meet at least one “safe harbor test” either: 1) hours, 2) aggregate pay or 3) critical operations
- ▷ No sin investments allowed including golf

# OVERVIEW OF OZ BENEFITS

## OZ Impact on Return on Investment



### Tax Deferral

- Capital Gains Not Paid While Invested in OZ

### Tax Reduction

- Step-up in Basis Reduces Capital Gains Liability Based on Length of OZ Investment

### Tax Avoidance

- Permanent Exclusion of Capital Gains on OZ Investment Appreciation for 1<sup>st</sup> 10 years

Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax and growth of the total investment of 7% annually

# OVERVIEW OF OZ ECOSYSTEM

- ▶ Between \$25-35B of OZ funds have been announced to date. It is expected that upwards of \$100B will be raised for OZ funds.
- ▶ 150+ OZ funds have been identified already across many categories of investment
- ▶ Some city and regions have been very aggressive about marketing their OZ investment opportunities:
  - Birmingham, AL
  - Norfolk, VA
  - Louisville, KY
  - South Bend, IN

## Real Estate Funds

- Farpoint Development (\$1B)
- Real estate focused
- Connected to Steve Glickman (fmr. Obama Advisor)

## Banks

- Goldman Sachs
- PNC Bank (\$500MM)

## Sector Focused Funds

- Grey Holdings Group (Oct 2018) (Defense technology focused)
- Esportsoportunityfund.com (Esports focused)
- Obsidian Opportunity Fund (Solar development focused)

## Social Impact Funds

- HeavyweightVentures.com - G. Foreman (Health and wellness focused)
- Minnesota Opportunity Zone Advisors

## Philanthropic & OZ Resources

- Rockefeller Foundation and The Kresge Foundation
- Kauffman Foundation
- Reonomy.com (Listing of Commercial real estate holdings)
- Indiana Consortium (Listing of potential OZ deals within the state of Indiana)

# OZ FUNDS FOCUSED ON REAL ESTATE

## OZ ASSET CLASSES



## Qualified Opportunity Zone Investments

Prospective funds and projects are over-weighted towards real estate investments versus operating investments. Smart OZ investors will look to diversify their OZ investments across multiple asset classes and take full advantage of operating investment OZ benefit.

# DEFINING “INVESTMENT READY” PROJECTS

## Conceptual Projects

These projects have NOT completed their pre-development phase NOR do they have funding.

Opportunity Zone funding alone is NOT enough to move these projects forward. The community will need to make some investment to move these conceptual projects to the investment ready stage.

These typically represent the largest and often most locally supported set of projects in most communities.

## “But For Funding” Projects

These projects have already completed their pre-development phase BUT have funding gaps.

The Opportunity Zone funding typically completes the funding source needed to execute a project.

This typically represents a smaller, identifiable fraction of projects in most communities.

## Investment Ready Projects

These projects have already completed their pre-development phase AND are essentially funded.

The Opportunity Zone funding typically supplants or complements an existing funding source.

This represents the smallest but most readily identifiable fraction of projects in most communities.

# PROJECTED OZ MARKET INVESTMENT PROFILE

## Early Stage OZ Investments – Investment Ready Projects (2018-2019)

Capture 7 year tax reduction benefit

Swap one form of capital for OZ investment money

Projects likely to be located in “gentrified” areas



## Intermediate Stage 2 OZ Investments – Concept Ready Projects (2019-2022)

Capture 5 year tax reduction benefit

Investment will likely follow demonstrated public investment

Municipalities will drive location and sharing of social benefit

Likely to include clean energy, agricultural and infrastructure projects



## Late Stage OZ Investments – Combined Operating & Real Estate Projects (2020-2026)

Capture 10 year tax free appreciation benefit

Investment will likely follow demonstrated public investment

May be one of projects or part of large concepts with multiple investments

# STACKING DESIGNATIONS WITH OPPORTUNITY ZONES

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Opportunity  
Zone

HUB Zone

Enterprise  
Zone

Foreign  
Trade Zone

TIF or  
similar

CRA Tract

Others?



# STRATEGY RECOMMENDATION: PATH TO OZ ATTRACTION

## Municipal Prioritization

Existing or Potential Single & Multi Project Identification

Pre-Development Needs and Fund Sourcing



## Public Investment

Site Aggregation & Planning

Zoning & Permitting

Infrastructure

Direct Co-Investment



## Private Follow-on Investment

### Catalyst Projects

- Initiate multi project sites
- Can sometimes be public infrastructure

### Anchor Projects

- Establishes cashflow
- Attracts related industries and businesses

### Fill Projects

- Develop organically from catalyst and/or anchor projects and/or master plan

# HOW TO REDUCE PERCEIVED OR REAL RISK

## Incentives and Financial Support

- This includes the Opportunity Zone benefit as well as the typical suite of economic development tools (LIHTC, NMTC, HTC, CDBG, Sec 108, TIF, Abatement, Grants, etc.)

## Multiple Private Investors

- Sharing the risk across multiple investment groups can be an important measure to reduce risk. This effort tends to favor multiple project concept areas where each investor in an individual project helps to reduce the risk of development of each additional project.

## Public Investment

- The demonstration of municipal support through site aggregation, planning & zoning, infrastructure investment and state and federal support coordination can substantially reduce a project perceived risk

## Public Direct Investment

- Where the municipality has the financial means, direct investment in the catalyst or anchor project also reduces the perceived risk of the overall project. Direct public co-investment achieves the same goal.

## Demonstrated Public Support

- Where municipalities have engaged the public to generate support for projects, private developers are more willing to take some risk without fear that the public will generate bad press.

# PRE-DEVELOPMENT GAP ANALYSIS & SOURCING (ILLUSTRATIVE)

	Estimated Costs	Public Support (City, Parish, State, & Fed)	Gap Pre-Development Funding	Potential Sources
Land Acquisition	\$10	\$3	\$7	City Contributes Land
Infrastructure				
Energy	\$20	\$15	\$5	OZ Funding?
Water, Sewer & Storm	\$30	\$15	\$15	Pot EPA?
Roads & Transportation	\$25	\$5	\$20	Pot. DOT?
Demolition	\$15	\$0	\$15	Pot. CDBG?
Mitigation	\$35	\$5	\$30	Pot. EPA
People Training (Workforce Dev.)	\$5	\$1	\$4	State Funding?
Project Mgmt. (process)	\$10	\$0	\$10	Developer
Project Construction	\$100	\$0	\$100	Developer
<b>Total</b>	<b>\$250</b>	<b>\$43</b>	<b>\$207</b>	

# ENHANCING SOCIAL EQUITY & ADDRESSING GENTRIFICATION CONCERNS

## Engagement Efforts

- Need structure two-way sessions to elicit and encourage community (bottoms up) support
- Educational efforts to encourage communities to take advantage of OZ program (churches, block clubs, etc.)

## Co-Investment Strategies

- **Public Benefit Corporation or other investment vehicle as tool for community co-investment so benefits are shared**
- Crowdsourcing applications and tools to aggregate potential capital from non-accredited investors

## City Tax Legislation

- Differentiated taxes for “legacy” residents and potentially “legacy” businesses to reflect long term value and fight gentrification
- Need strategy to address non-resident housing owners renting in OZ.

## Technical Assistance Seminar

- Likely a series of events that combine local accountants, tax professionals and lawyers with developers and investors to review practical templates for OZ transactions.

# COMPANY BACKGROUND & CONTACT INFORMATION



## Bo Kemp

Senior Director, Chicago

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- ▷ Experienced operations team
- ▷ Significant public sector expertise as Deputy Mayors, CFOs, and Corporation Counsel
- ▷ Track record of successfully engaging public sector employees
- ▷ A history of results
  - Cost savings & Service improvements
  - Public value & Employee engagement

### Innovation-Related Experience in Multiple Jurisdictions

- |                         |                         |
|-------------------------|-------------------------|
| ▶ Newark, New Jersey    | ▶ Indianapolis, Indiana |
| ▶ Gary, Indiana         | ▶ State of Oklahoma     |
| ▶ Atlanta, Georgia      | ▶ State of Illinois     |
| ▶ Tulsa, Oklahoma       | ▶ State of Indiana      |
| ▶ Memphis, Tennessee    | ▶ State of Florida      |
| ▶ Baltimore, Maryland   | ▶ State of Texas        |
| ▶ Nashville, Tennessee  | ▶ Pennsylvania          |
| ▶ Westfield, Indiana    | ▶ Scranton              |
| ▶ San Diego, California | ▶ Dunmore               |
| ▶ Kansas City, Missouri | ▶ Terre Haute, Indiana  |
|                         | ▶ And many others       |

## PUBLIC SECTOR TEAM CAPABILITIES

HELPING CLIENTS DEVELOP & IMPLEMENT SUCCESSFUL PARTNERSHIPS



30 YEARS  
FOCUSSED  
ON P3 WORK

750+  
GLOBAL  
PROFESSIONALS

13  
LOCATIONS

USA • UK • CHINA

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