

OVERVIEW OF OPPORTUNITY ZONE PROGRAM

SUMMER 2019

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DANIELS

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FAEGRE BAKER DANIELS BACKGROUND & CONTACT INFO



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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

PUBLIC SECTOR TEAM CAPABILITIES

HELPING CLIENTS DEVELOP & IMPLEMENT SUCCESSFUL PARTNERSHIPS



30 YEARS
FOCUSSED
ON P3 WORK

750+
GLOBAL
PROFESSIONALS

13
LOCATIONS

USA • UK • CHINA

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 |

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OZ HISTORY & BACKGROUND

2016	Formation of Economic Innovation Group (EIG) and development of Opportunity Zone program
Dec-17	Tax Act Passed – Co Sponsored by Sen. Scott (R) & Sen. Booker (D)
Apr-18	Governor Opportunity Zone Census Tract Recommendation to U.S. Treasury
Apr-18	Initial OZ Law released
Jun-18	U.S. Treasury Approves Round 1 OZ Census Tracts
Jun-18	U.S. Treasury Approves Round 2 OZ Census Tracts
Oct-18	U.S. Treasury Issues OZ Regulations Update 1 - Fund Formation & Real Estate Focused
Apr-19	U.S. Treasury Issues OZ Regulations Update 2 - Holding Period, Operation Inv. & Leasing
TBD	U.S. Treasury to Issue OZ Regulations Update 3 - Monitoring & Compliance

BRIEF OVERVIEW OF OZ LAW

Qualified OZ Census Track (QOZ)

- Must meet Low Income Communities (LIC) test
- Nominated by Gov. & Approved by Treasury
- Cannot be altered at this time, will not be altered by 2020 census

Qualified OZ fund (QOF)

- Must be a pass-through entity
- Funds self certify by completing & submitting a form with Federal tax records
- Funds are responsible for monitoring & compliance

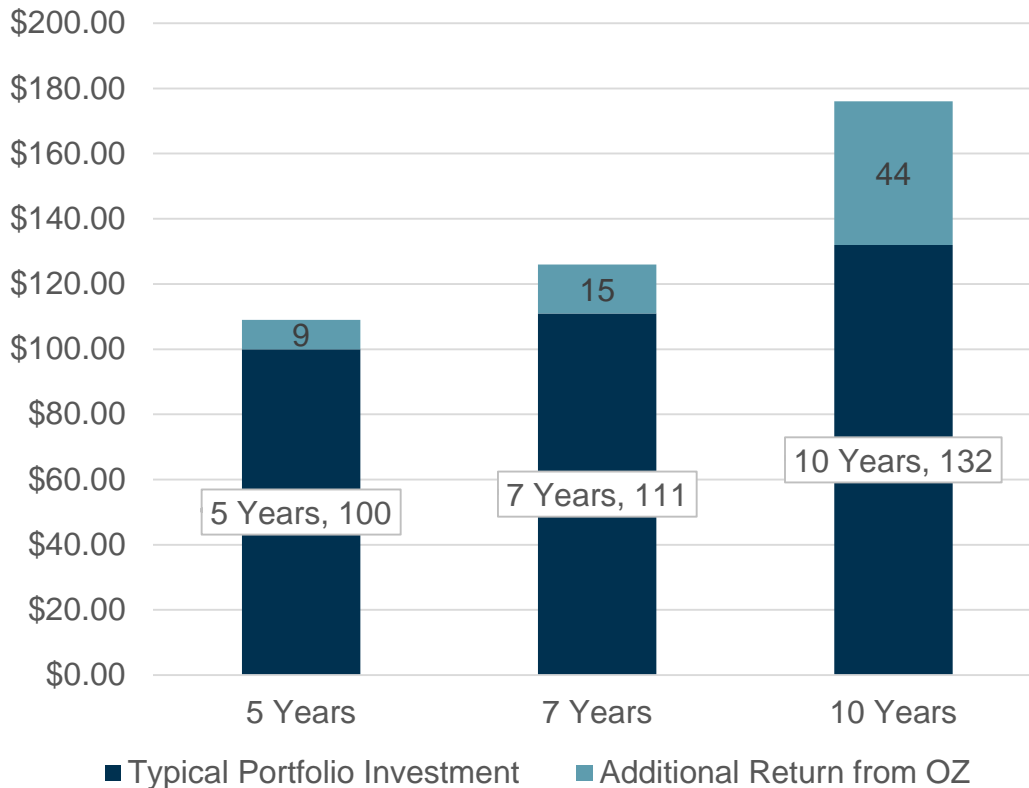
Qualified OZ Business or Property (QOZB or QOZP)

- Must be acquired after December 2017
- Property must be located substantially* within QOZ
- Property must meet “Substantial Improvement” test
- Business must “Active Conduct” test

- ▷ OZ Investments must be made in approved OZ census track (QOZ), through a Qualified OZ fund (QOF) and into Qualified OZ businesses or properties (QOZB or QOZP)
- ▷ Qualified OZ Funds cannot hold >5% in financial instruments nor spend >10% of fund capital raised on fees
- ▷ OZ properties (QOZP) require the equivalent of 100% of acquisition cost to be invested in “substantial improvements”
- ▷ Operating businesses (QOZB) must generate >50% of sales within QOZ to meet “Active Conduct” requirement
- ▷ 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 1st 10 years

Note: Assumes highest 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 \$35-45B of OZ funds have been announced to date. It is expected that upwards of \$100-\$300B will be raised for OZ funds.
- ▶ 180+ 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
 - New Orleans, LA

Real Estate Funds

- Farpoint Development (\$1B)
- Real estate focused

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)

OVERVIEW OF OZ ASSET CLASSES



POSSIBLE DESIGNATIONS STACKING WITHIN OPPORTUNITY ZONES

Opportunity
Zone

HUB Zone

Enterprise
Zone

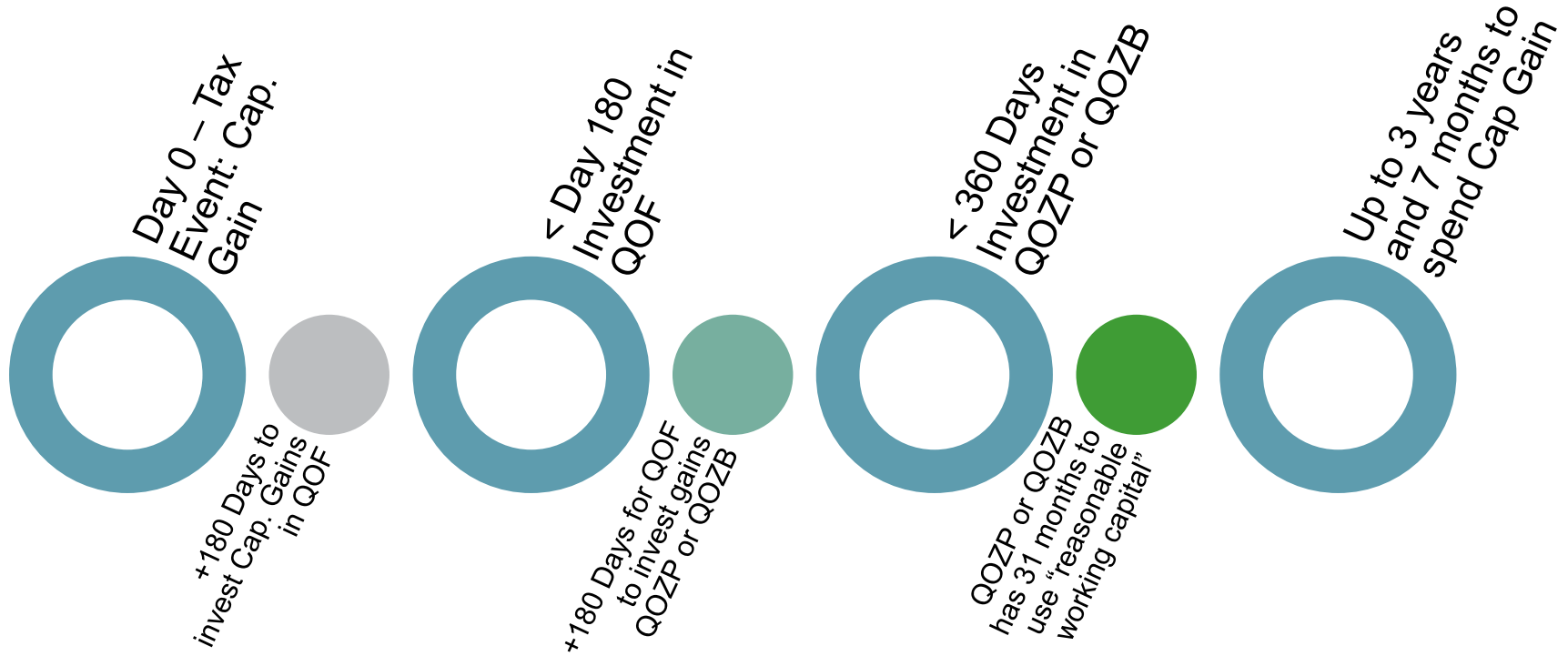
Foreign
Trade Zone

TIF or
Similar

CRA Tract

Others?

OZ INVESTMENT TIMELINES



SUBSTANTIAL IMPROVEMENT TEST & PURCHASE ALLOCATION

Substantial Improvement Test or 50% Gross Revenue Requirement: Qualified Properties acquired as Opportunity Zone investments must receive 100% of the purchase price of the physical property in improvements.

Example: If you purchase building for \$1,000, the fund must invest at least \$1,000 in improving the property.

Qualified OZ Property - Rehab

- Can allocate up to 30% of purchase price to land

Qualified OZ Property - Vacant

- Property that has been vacant for at least five years is not subject to substantial improvement requirement

Qualified OZ Property - Land

- Land is not subject to substantial improvement requirement

ACTIVE CONDUCT RULE & OZ SAFE HARBORS

Active Conduct Rule or 50% Gross Revenue Requirement: Operating Companies receiving Opportunity Zone investments must generate 50% or more of their gross revenue from within an Opportunity Zone. This rule posed a problem for a number of businesses that recognize revenue at the point of sales – distribution and internet companies among others. The April 2019 regulations update attempts to resolve this concern by creating three safe harbors:

Aggregate Hours

- 50% or more of total hours worked by employees and contracted workers takes place within a QOZ.
- Example: Pick & Pack facility in QOZ with Research Division outside QOZ

Aggregate Pay

- 50% or more of total aggregate pay of employees and contracted workers takes place within a QOZ.
- Example: Consumer product company with well paid research staff within QOZ and call center staff outside of QOZ

Critical Operations

- If the business could not operate but for the property, management or processes conducted within a QOZ,
- Example: Warehouse distribution company located within QOZ where product is received and loaded for transport to final sales destination.

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

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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.

HOW MUNICIPALITIES & DEVELOPERS CAN WORK TOGETHER

Core Considerations for Investors

- Location
- Traffic
- Regional demand for product
- Construction costs
- Market rates

Pre-Development Issues for Investors

- Site Control
- Zoning & Use
- Brownfield/ Wetland Mitigation
- Blight/ Demolition
- Infrastructure (Power, Water & Sewer)
- Other Incentives (state, regional, city)

Considerations for Municipalities

- Speed of Development
- Fiscal impact
- Temp. & Perm. jobs
- M/WBE contracting
- Infrastructure (power, water & sewer)
- Other incentives (state, regional, city)

MUNICIPALITY OPPORTUNITY ZONE SUPPORT

Available
Land in OZ

Demolition &
Mitigation
Funding

Abatement/
TIF

CDBG/
Section 108/
Vouchers

As of Right
Permitting/
Zoning

Filing Fee
Waivers

Small
Business
Loans

Workforce
Funds

OPPORTUNITY ZONES & GENTRIFICATION CONCERNS

Engagement Efforts

- Need to 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

- Researching tools 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

Thank You!

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