

# Opportunity Zones

*“New for the Brownfields Toolkit”*

**National Webinar**

**Technical Assistance to Brownfields (TAB) Program**

**February 28, 2018**

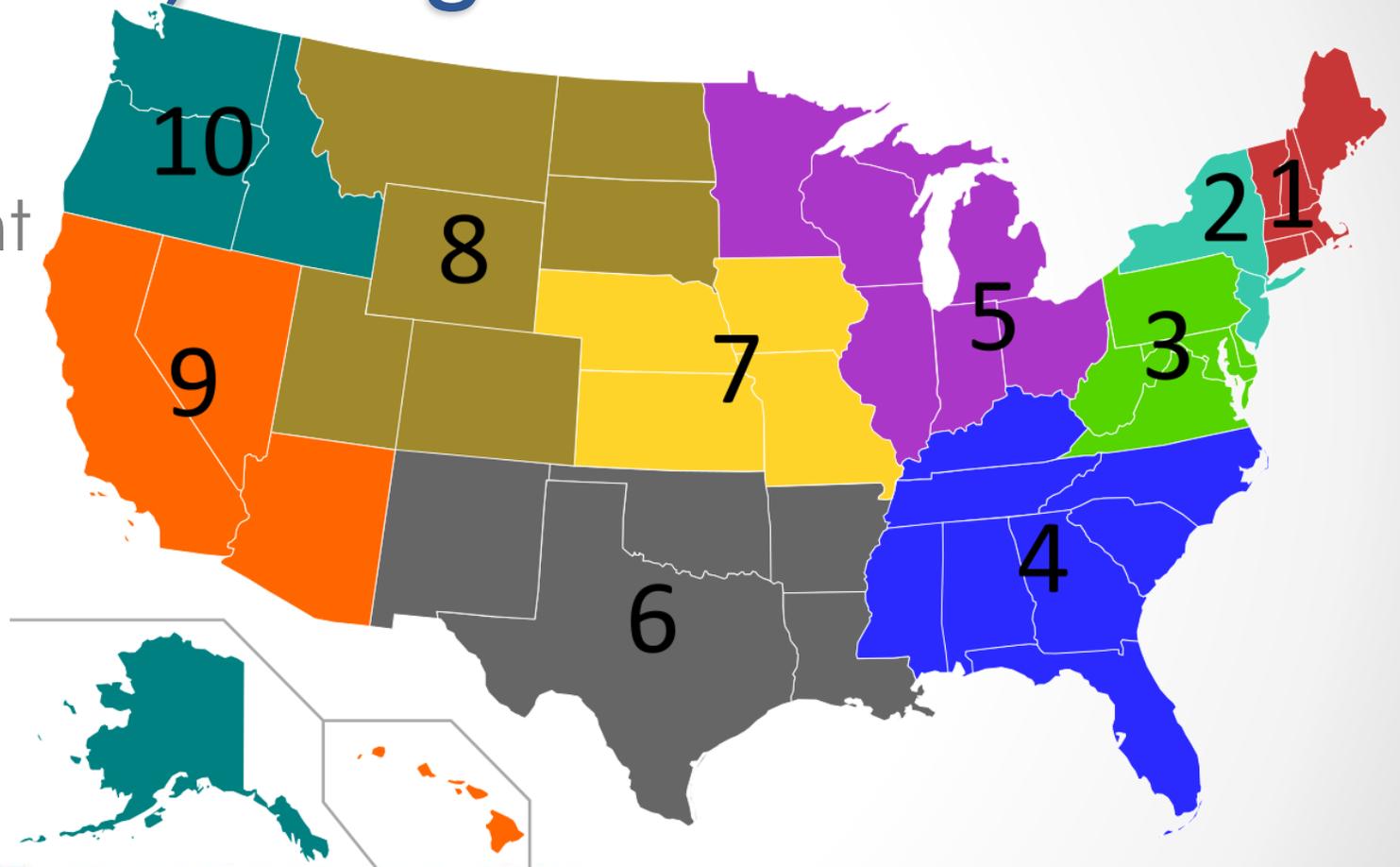


# Housekeeping

- All attendees are on mute. Please use the integrated audio on your computer or mobile device for sound.
- Please submit all questions using the **Q&A** function on the upper right section. When you submit your questions, please submit your questions to “**All Panelists.**”
- A recording of the webinar will be available after the webinar, and we will distribute a link to all participants.
- We appreciate your feedback – please respond to the webinar survey.

# Technical Assistance to Brownfields (TAB) Program

- Free Planning, Environmental and Economic Development expertise
- Directly to local governments, non-profits, and tribal communities
- Webinars, workshops, & E-Tools



# Today's Presenters



**Andy Seth – Overview.** Andy is the President of Sustainable Strategies DC, a KSU TAB partner, based in Washington, DC, that helps clients secure resources for community revitalization. Much of his career has involved assisting or directing groups of communities and environmental topics groups, such as the Climate Communities and American Waterfront Revitalization Coalitions, American Rivers, through a number of programs and the Local Government Environmental Assistance Network at ICMA, as well as with the The Ferguson Group and Spiegel & McDiarmid.

**Jane Campbell – Finance / Development Perspective.** Jane is the Director of the Washington DC Office of the National Development Council. The NDC assists over 100 communities across America with public/private partnerships, and loans and financing tools, for commercial development, public facilities and low-income housing. She has an accomplished career in local, state, and federal government, in both elected and appointed positions, including the first woman mayor of Cleveland.



**Maurice Jones – Local Government Perspective.** As Dubuque's Economic Development Director, Maurice develops, manages, coordinates, and supervises programs to meet the social, economic, and physical development needs of the Dubuque community. This involves significant coordination, cooperation, and interaction with community groups, and private not-for-profit economic development organizations. His specific responsibilities include economic development, downtown redevelopment, riverfront development.





# Opportunity Zones

Spurring Brownfields Revitalization with  
the New Tax Law

Andrew Seth, Sustainable Strategies DC

February 28, 2018

# Today's Agenda

- I. Background on Investing in Opportunity Act
- II. Opportunity Zone Basics
- III. Opportunity Zones & Brownfields
- IV. Opportunity Zone Tax Incentives
- V. Designating Opportunity Zones
- VI. Creating Opportunity Funds
- VII. Next Steps for Community Officials

Also: Perspectives from the Development/Financial Community (National Development Council) and Local Government (City of Dubuque, IA)

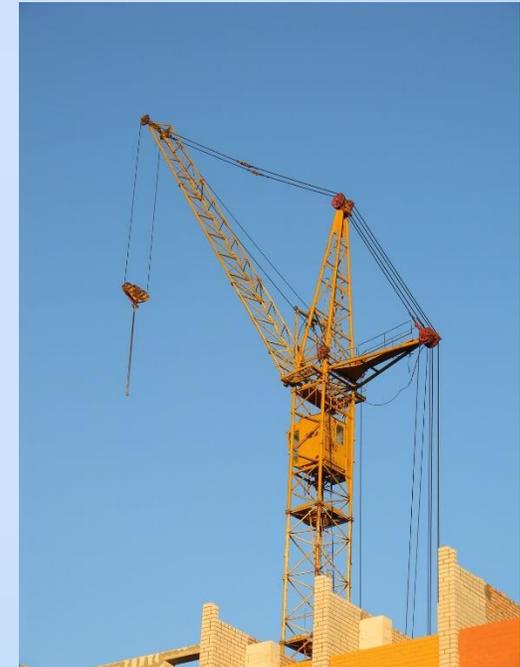
# Background on Investing in Opportunity Act

- Bipartisan legislation proposed by Senator Tim Scott (R-SC) and Corey Booker (D-NJ)
- Included in the Tax Cuts and Jobs Act of 2017, which Congress approved on December 22, 2017
- Text of legislation:  
[www.congress.gov/bill/115th-congress/house-bill/1](http://www.congress.gov/bill/115th-congress/house-bill/1)



# Opportunity Zone Basics

- **Goal** – Encourage long-term private capital investment in low-income urban and rural communities
- **Incentive** – Tax deferrals on original capital gains invested in Opportunity Zones and tax exclusion on new capital gains achieved from Opportunity Zone investments
- **Outcome** – Equity share in and launch of development projects that may not have traditionally penciled out



# Opportunity Zones & Brownfields

- Many contaminated properties within “highly distressed” Census Tracts
- Big opportunity for brownfields redevelopment in designated Opportunity Zones – can help make previously marginal projects look more attractive
- Brownfields remediation likely to be considered by the Internal Revenue Service as a pre-development cost eligible for Opportunity Zone investment



# Opportunity Zone Tax Incentives

- **Temporary Tax Deferral** – Taxable capital gains are deferred (until sale of equity share or December 31, 2026) if investors capitalize projects in designated Opportunity Zones
- **Step-Up in Basis** – Investors allowed to exclude 10% of original gain from taxation with 5-year Opportunity Zone investment and 15% exclusion with 7-year Opportunity Zone investment
- **Permanent Exclusion** – Any gains from an Opportunity Zone investment held at least 10 years are excluded from taxation



## Opportunity Zone Tax Incentives - Example



- Mr. Monopoly sells stock and realizes \$1 million in capital gains that will be taxed.
- He invests \$1 million in an “Opportunity Fund” that capitalizes a housing project in a designated Census Tract. The investment is held for 10 years.
- Mr. Monopoly defers all taxes on his initial \$1 million in capital gains until 2026.
- His basis increases, which enables him to exclude 15% of his original taxable capital gains (from \$1 million down to \$850,000).
- The housing project’s value grows, and Mr. Monopoly will pay no taxes on any new capital gains.

# Designating Opportunity Zones

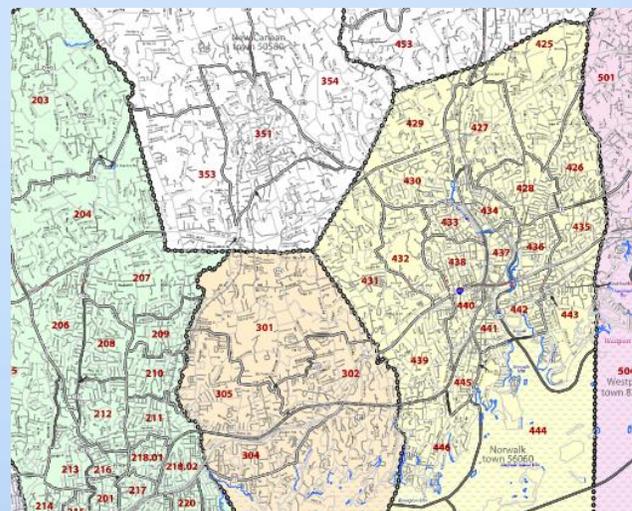
- Governors may designate 25% of eligible low-income Census Tracts.
- Eligibility mirrors areas that qualify for New Market Tax Credits:
  - The poverty rate for Census Tract is at least 20%, or
  - In the case of a Census Tract not located within a metropolitan area, the median family does not exceed 80 percent of statewide median family income, or
  - In the case of a Census Tract located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income.

# Designating Opportunity Zones

- Some contiguous Census Tracts may be considered – median family income can not exceed 125% eligible area.
- See map and list of eligible Census Tracts:  
[www.cdfifund.gov/pages/opportunity-zones.aspx](http://www.cdfifund.gov/pages/opportunity-zones.aspx)
- Key deadlines
  - **March 21, 2018** – Governors have 90 days from enactment to designate Census Tracts as Opportunity Zones.
  - **April 20, 2018** – Governors may request a 30-day extension for submitting their nominations.
  - After submission by Governors, the Treasury Secretary has 30 days to certify a State's Opportunity Zones.

# Designating Opportunity Zones

- Wide discretion among States on how they will designate Opportunity Zones.
- Some Governors adopting formal nomination processes, some States not seeking input.
- Strategic Governors will designate Census Tracts that have strong potential to attract Opportunity Zone investment over the next decade.



# Designating Opportunity Zones

- Criteria:
  - Ideally geographically concentrated or contiguous clusters of Census Tracts.
  - Existing public and private initiatives to attract investment and foster startup activity.
  - Demonstrated success with New Market Tax Credits, Promise Zones, Empowerment Zones, and Renewal Communities.
  - Recent layoffs due to business closures or relocations.



## Creating Opportunity Funds

- Definition – an investment vehicle that is organized as a partnership or a corporation for the purpose of investing in qualified Opportunity Zone property.
- Likely to be established at the local, state, and national levels.
- More guidance required by Treasury Department – timing to be determined.



## Next Steps for Community Officials

- Reach out to your State's economic development office to determine who is administering the Opportunity Zone designation process.
- Engage developers to identify strong projects that are ready-to-go but for the lack of financing.
- Prepare materials for State that identify priority Census Tracts with justification for their selection.
- Gauge interest of the local financial community in creating an Opportunity Fund.
- Encourage key stakeholders (developers, business groups, banks, state legislators) to support your priority Census Tracts.

# Contact Information



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# HOMES JOBS COMMUNITY



## *Opportunity Zones*

*Presented by: Jane Campbell*

*February 28, 2018*



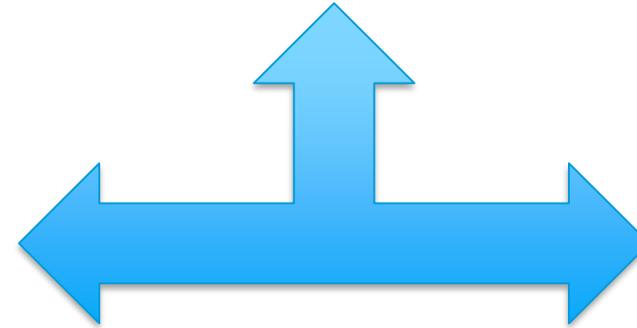


**TAX CUTS &  
JOBS ACT**

*Phase 1: Investment in Opportunity Act is passed as a provision in the tax reform legislation .*



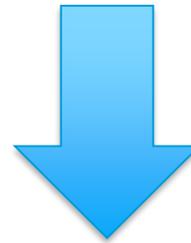
IRS will release regulations /  
Open Comment period **TBD**



*Phase 2: Setup – The Federal Government is currently developing the parameters for how program will function ; in conjunction with States who will make zone designations.*



State Governors will draw Opportunity Zone Maps and Submit to CDFI Fund.



*Phase 3: Deployment – **TBD** Designation of Opportunity Zone Funds, Rules for Investing*

# Action to Take Now...ADVOCATE

...

- *To ensure communities of all shapes and sizes have a stakehold in shaping Opportunity Zones – they should now be lobbying ....*
- **Governors** – *to craft opportunity zone maps that can best yield success as intended by the legislation.*
- **Members of Congress** – *to use the full powers of their offices to influence Treasury to craft regulations that make sense, are efficient, and don't create any unintended red tape.*
- **Business Community / Private Sector** - *to create an education campaign about Opportunity Zones to spur interest amongst potential fund investors.*

# What kinds of Projects do Opportunity Zone tax incentives make sense for?



- A few important things to keep in mind before we dive into the specifics:
- This is an **investor incentive**, not one that is awarded to individual companies.
- All incentives pertain to the tax treatment of an investor's **capital gains**.
- Geared toward **new businesses** and projects.
- The incentive is **market-based**—investors will determine how large or small it eventually becomes by how many investable opportunities they identify.
- **Capital alone isn't a strategy**. States and localities are still on the hook for other complementary factors that will determine whether Opportunity Zones achieves its maximum potential.

# What kinds of Projects do Opportunity Zone tax incentives make sense for?



- There are three types of business property eligible for investment:
  - Original-issue **stock** of a qualified opportunity zone **corporation**.
  - **Interest** in a qualified opportunity zone **partnership**.
  - **Tangible property** used in qualified opportunity zones.
    - If the original use does not commence with the O-Fund investment, then the property must be substantially improved in order to qualify.
- In laymen's terms, that means there are a lot of investment opportunities: **high-growth startups, main street businesses, real estate, manufacturing facilities, brownfield redevelopment, entrepreneurship incubators and accelerators, co-working spaces, rental housing, affordable housing, and more.**
- *So-called "sin" businesses are excluded.*

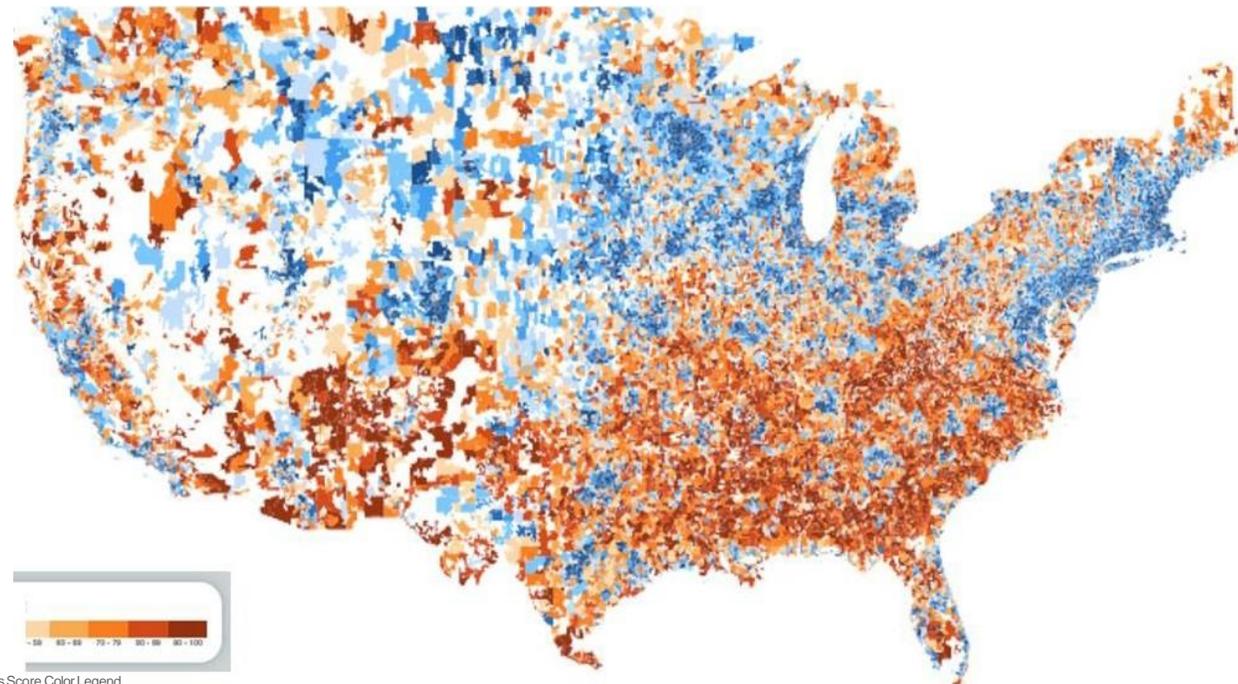
# Creating Opportunity Zones



- **Feb 8, 2018** – Treasury issued guidance on opportunity zone designation
- Governors designate no more than 25% of eligible low income census tracts as OZ.
- Up to 5% of OZ can be contiguous census tracts if not more than 125% of median income of contiguous tract
- Governors have **90 days** from enactment (**ending March 21, 2018**) to nominate low-income census tracts to be designated as Opportunity Zones.
- Governors may also request a 30-day extension (**ending April 20**) for submitting their nominations.
- After submission, the Treasury Secretary has 30 days to certify a state's Opportunity Zones.
- Most important step- get the designation – explore building coalition with other areas of the state

## 52 million Americans (1 in 6) live in economically distressed communities

- **Minorities represent over half the population in distressed communities**, compared to only about a quarter of the population in prosperous ones. Blacks and Native Americans are more than three times as likely to live in a distressed zip code than they are a well-off one.
- Counties with under 100,000 people are **11 times more likely to be economically distressed** than others.
- The rate of **new business formation in rural (non-metropolitan) areas** has fallen more than twice as quickly as it has at the national level. In 2014, only 49,000 new businesses formed in rural areas, while 57,000 closed.



Distress Score Color Legend  
Prosperous Distressed

# The Case for Brownfields

- Brownfield redevelopment is very costly – often more expensive than new construction.
- Opportunity Zones will act as a new investment resource that can be added to the arsenal of federal investment toolkit that communities can utilize.
- Opportunity zones – as intended in the legislation (the regulations will reveal its true flexibility) can be leveraged with our already existing investment tools to enhance finance package.



# *Treasury guidance allows for Investments in qualified opportunity funds to be eligible for additional tax benefits*

- New Markets Tax Credits – provide low cost and patient debt while OZ is equity
- Local government may provide tax increment financing
- Housing projects can partner with Low income housing tax credit
- TIFIA and WIFIA investments can be part of an OZ project
- Brownfield remediation dollars can be used as part of a package
- CDBG, HUD 108 compatible



# Opportunity Zones and NMTC

- The provision was NOT intended as a replacement for the New Markets Tax Credit (NMTC).
- NMTC was renewed alongside the Opportunity Zones provision as a part of the Tax Cuts and Jobs Act.
- The Opportunity Zones provision is, in fact, complementary to the new markets tax credit.
  - The provisions incentivize different sources of capital:
    - Equity = Opportunity Zones
    - Debt = NMTC

# Development of Opportunity Funds

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- Qualified Opportunity Funds (QOF) are defined as *investment vehicle organized as a partnership or corporation for purpose of investing in Qualified Opportunity Zone property*
- QOF must make 90% of investments in the OZ
- Funds must be certified by IRS ( Treasury)
- Treasury has not issued guidance on certification process.



# Timeline and Open Questions

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- IRS is busy with tax reform implementation
- *In a speech last week in Cincinnati, President Trump obliquely touted the QOZs as a feature of the tax overhaul. In another sign that things may be moving forward with the program soon, the IRS included it in their recently updated priority guidance plan for the next year.*
- Treasury has said that rules will be forthcoming – **June 30, 2018**

## Open issues include:

- *size of the fund,*
- *geographic reach,*
- *number of funds that can be certified,*
- *fiduciary responsibility of fund manager*
- *impact of investment on community served – job creation measure?*

## *How will investment decision be likely made?*

...

- Unable to be sure until the Treasury issues rules
- Investors will be looking for rate of return on equity investment
  - High growth businesses
  - Transformational real estate investments with increased value
    - Brownfield may cause current value to be low, remediation increases value
    - Local government will have to make the case for increased value
    - Clear community plans & other investment incentives

# Contact



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Director of the Washington Office  
NDC

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202-400-3680

[NDConline.org](http://NDConline.org)



THE CITY OF  
**DUBUQUE**  
*Masterpiece on the Mississippi*

# Dubuque ... A Little Background

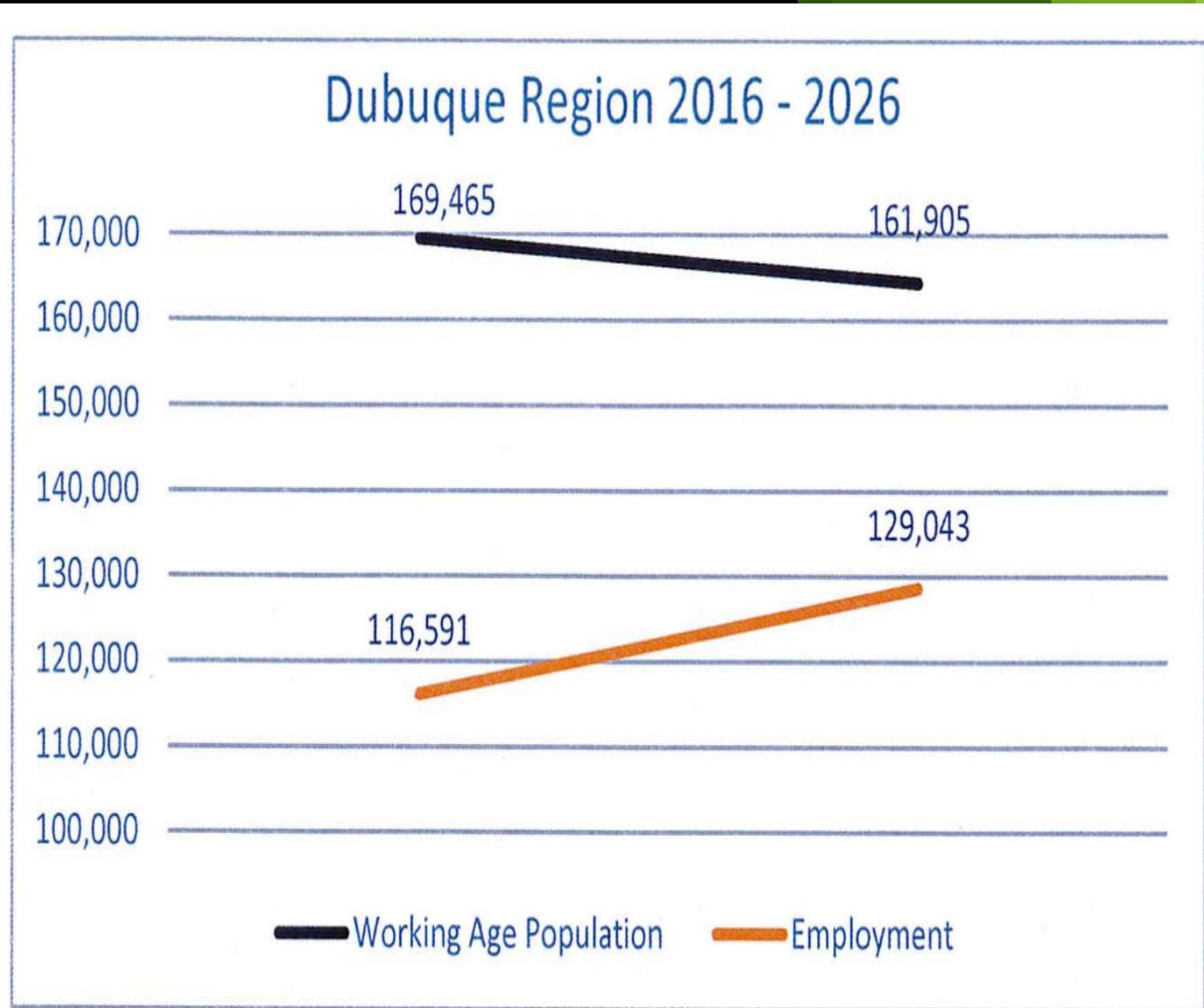
## History and Demographics

- \* Oldest city in Iowa
- \* Population - approximately 60,100
- \* Located on the banks of the Mississippi River
- \* Formerly a fur-trading post, lead mining community, manufacturing center, and meatpacking hub
- \* Significant brownfields contamination
- \* Strong sustainability and historic reuse ethic



# Economic Challenge - Workforce

▶ 2.4% unemployment



**2/23/18**

**Gov. Reynolds, Lt. Gov. Gregg  
announce applications now being  
accepted for Opportunity Zones**

(DES MOINES) – Gov. Kim Reynolds and Lt. Gov. Adam Gregg, along with the Iowa Economic Development Authority, announced an invitation for cities, counties and communities in [eligible areas](#) to apply to be considered for designation as [Opportunity Zones](#)

Cities, counties and communities with eligible LICs in Iowa have been invited to apply by completing an application form available on line . All applications must be submitted to [OpportunityZones@iowaeda.com](mailto:OpportunityZones@iowaeda.com) by 5 p.m. CST on March 19, 2018.

# State of Iowa Anticipated Process and Timeline

- Application and Instructions sent via email to all eligible local Iowa government offices (239 eligible census tracts): February 23, 2018
- Submit applications to [opportunityzones@iowaeda.com](mailto:opportunityzones@iowaeda.com) by: March 19, 2018
- Office of the Governor submits Iowa nominations to the U.S. Department of the Treasury for review by: April 21, 2018

Official Opportunity Zones designations will be determined by the U.S. Department of the Treasury and announced by the Office of the Governor

# What criteria is being used to review the Iowa application?

- Community vision
- Economic hardships
- Past successes
- Average unemployment rate
- Community's plan if awarded Opportunity Zones designation

## Eligibility Requirements outlined:

The zones will be designated in tracts that meet the Treasury Department's qualifications for New Market Tax Credits. These are U.S. Census tracts where the poverty rate is

- ***20 percent or greater and/or family income is less than 80 percent of the area's median income.***

The governor of each state is permitted to designate 25 percent of its “low income census tracts” (LIC) as Opportunity Zones, subject to approval from the U.S. Department of the Treasury. ***Iowa has 239 eligible LICs; 60 will be nominated as Opportunity Zones***

# City of Dubuque Approach/ Next Steps:

## Identification of eligible Census Tracts:

- 20 percent or greater and /or family income less than 80 percent of areas median income. (Urban Renewal Areas )

## Identification of Potential “shovel ready projects” within the eligible census tracts.

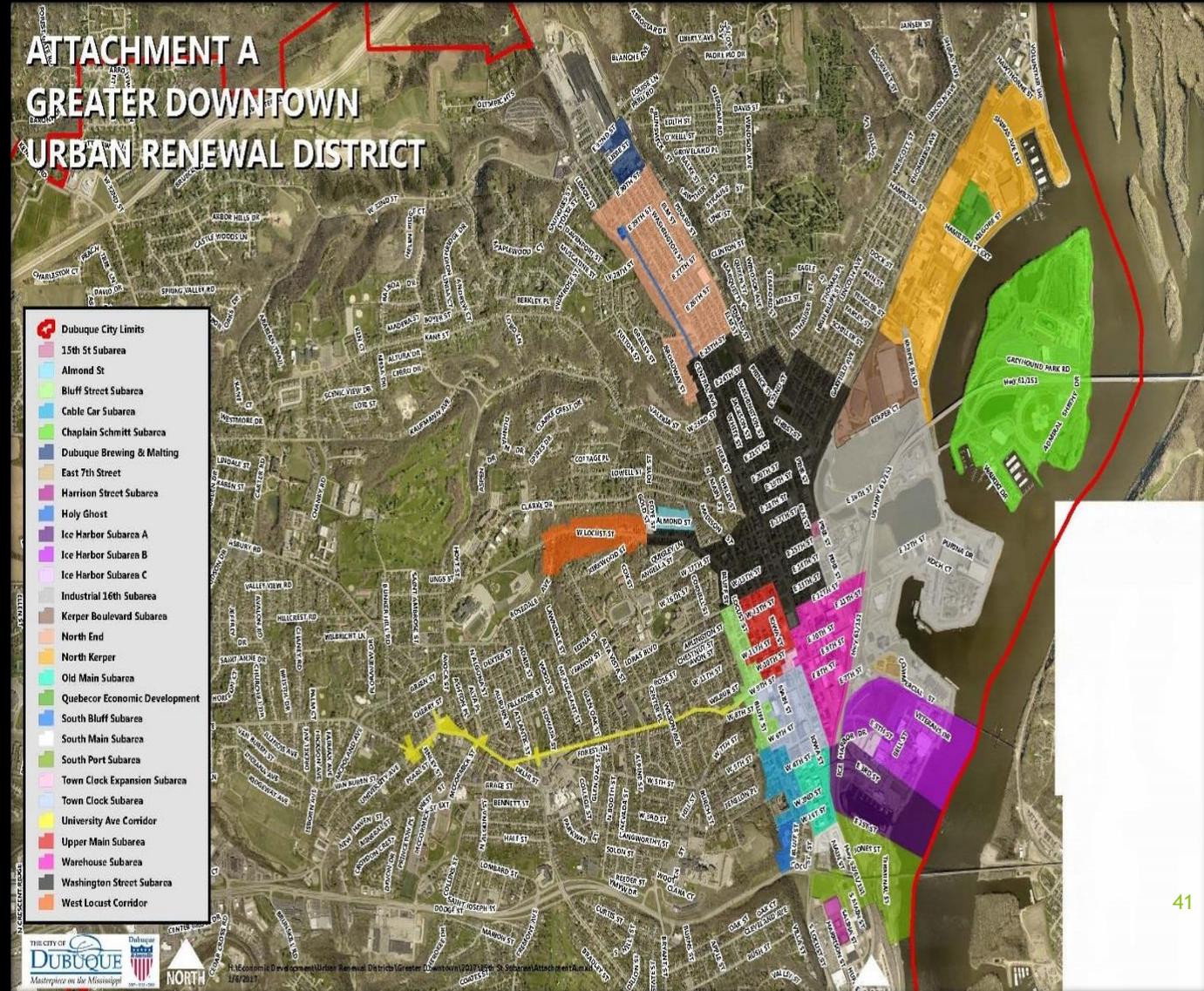
- a through review of pipeline development projects within the tracts that could be considered a “ catalyst “project or potential funding gaps may exist

## Creation of a Dubuque Opportunity Zone Fund

- Current discussion with local financial institutions on setting up a local “O Fund” to attract local patient capital.

# Current Economic Development Programs Within Eligible Census Tracts

Urban Renewal (TIF)  
Urban Revitalization  
Downtown Rehabilitation  
Grants (Façades)  
Downtown Housing  
Incentives



**Brewing & Malting Building** 3000 Jackson St.  
*Adaptive reuse into mixed-use facility to include first floor retail/commercial and upper story apartments*

190610005001

**1800 Central Ave(Entire block)**  
*Adaptive reuse of entire city block as a catalyst project or major corridor*

190610005004

**Metz Redevelopment Building** 1690 Elm St.  
*Crescent Community Health Center new medical campus*

**Voices Building** 1000 Jackson St.  
*Mixed-use office/retail adaptive reuse*

**Jeld-Wen Campus** 250 E. 8th St.  
*Adaptive reuse from light industrial to office space*

190610001001

**South Port Redevelopment Area**  
*33-acre site along the river*

190610001001

## **PARTNERING FOR A BETTER DUBUQUE**

# **Replicating the Model Of Public/ Private Investment Partnerships past success**



- ▶ 90-acre campus on former brownfield
- ▶ \$400 million public/private investment

# Reclaiming Dubuque's Waterfront: Replicating the Model



# The North Port Today

## Major Renewal



## Encouraging Private Investment:

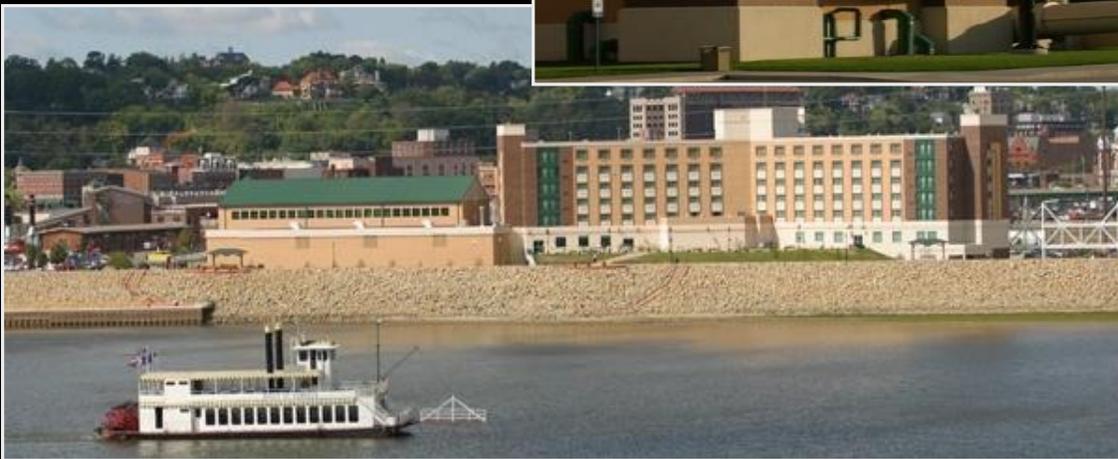
### Grand Harbor Resort & Waterpark

\$30 million

Platinum Hospitality  
Group

200 rooms

25,000 sq. ft. Indoor  
Waterpark



*America's River*  
PORT OF DUBUQUE

## PARTNERING FOR A BETTER DUBUQUE

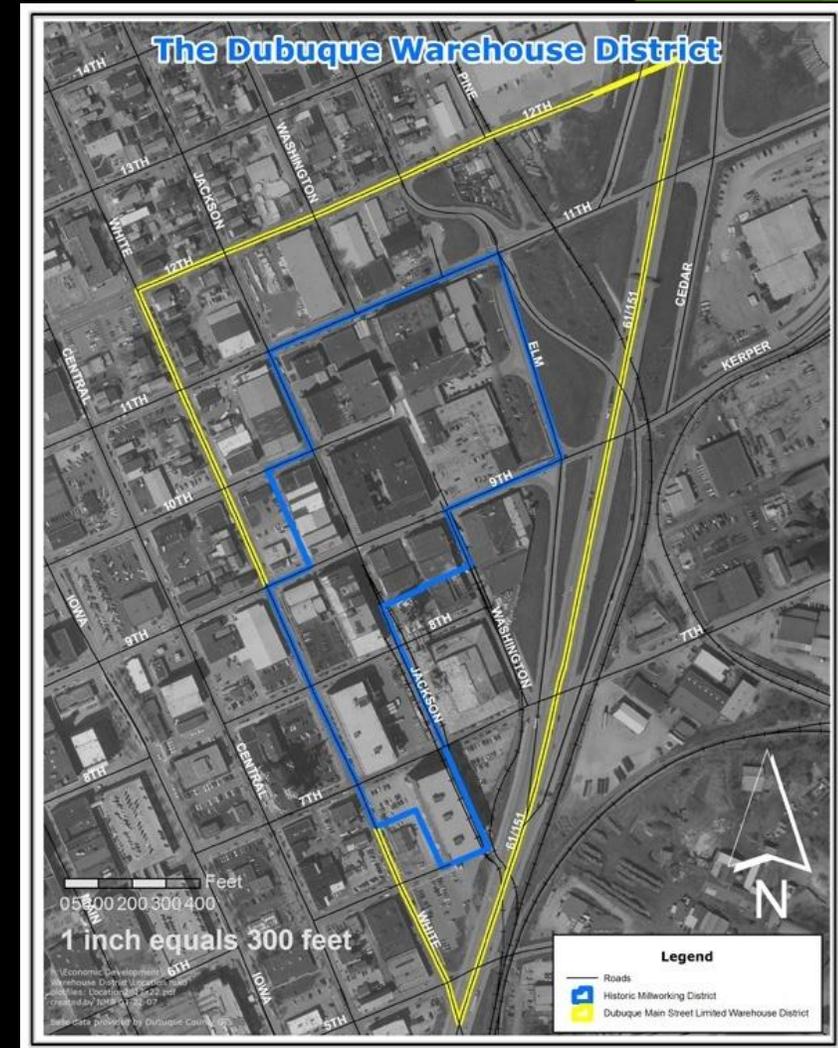
# Flexsteel Industries World Headquarters



- ▶ \$12 million, 4-story office building in Port of Dubuque

# Historic Millwork District Revitalization

- ▶ Over 1 million square feet
- ▶ 28 buildings covering 17 city blocks
- ▶ Estimated \$200 million private/public investment over 10 years
- ▶ A neighborhood where people can live, work and play



# South Port Concepts



# Keys to Success

## Important Steps

- \* Identifying other potential investment sites
- \* Creating a Marketing Strategy around various projects
- \* Setting up a local Opportunity Fund
- \* Planning, planning, planning
- \* Strategy for Municipal investments
- \* Relationships at all levels
- \* Celebrating successes



THE CITY OF  
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[www.cityofdubuque.org](http://www.cityofdubuque.org)

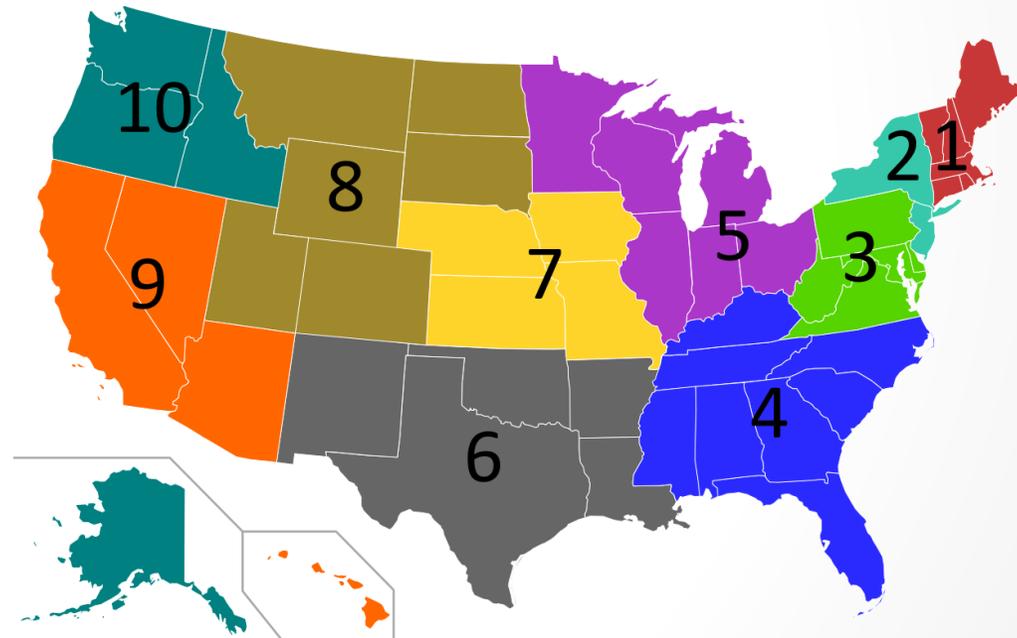
# Chat Questions? (and Speaker Points of Contact)

- **Andy Seth**, Sustainable Strategies DC: [Andrew.Seth@strategiesdc.com](mailto:Andrew.Seth@strategiesdc.com)
  - Overview of Opportunity Zone Tax Incentives
- **Jane Campbell**, National Development Council: [jcampbell@ndconline.org](mailto:jcampbell@ndconline.org)
  - Finance/Development Perspective
- **Maurice Jones**, City of Dubuque: [Mjones@cityofdubuque.org](mailto:Mjones@cityofdubuque.org)
  - Local Government Perspective



# Technical Assistance to Brownfields (TAB) Program

- *By March 7<sup>th</sup>, limited information about designating Opportunity Zones will be available on the KSU TAB web site at: [www.ksutab.org/Resources](http://www.ksutab.org/Resources) (key Word Search Opportunity Zones)*
- For other technical assistance requests please contact your Regional TAB provider (please see next slide)
- Thanks for attending!



# TAB Assistance Providers

New Jersey Institute of Technology (NJIT)—EPA Regions 1, 3, & 4

Colette Santasieri | 973-642-4165 | [santasieri@njit.edu](mailto:santasieri@njit.edu) | [www.njit.edu/tab](http://www.njit.edu/tab)

Kansas State University (KSU)—EPA Regions 5, 6, 7 & 8

Blase Leven | 785-532-0780 | [baleven@ksu.edu](mailto:baleven@ksu.edu) | [www.ksutab.org](http://www.ksutab.org)

Center for Creative Land Recycling (CCLR)—EPA Regions 2, 9 & 10

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