

# Opportunity Zones and Brownfield Redevelopment: *What's New?*

National Webinar  
Technical Assistance to Brownfields (TAB) Program  
October 4, 2018



*IN PARTNERSHIP WITH THE LOCAL INITIATIVES SUPPORT CORPORATION*



# Opportunity Zones

**8,762**  
Census Tracts Designated  
as of June 14, 2018

An Opportunity Zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as Opportunity Zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation authority to the Internal Revenue Service.

Source: Internal Revenue Service

**\$2.3**  
Trillion  
amount of unrealized  
capital gains held by  
U.S. investors



Source: Economic Innovation Group

Average poverty rate

**31%**

Average unemployment rate

**14.4%**

Average family income in  
OZ census tracts relative to  
area median income (AMI)

**59%**

Source: Medium.com

A Qualified Opportunity Fund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in an Opportunity Zone and that utilizes the investor's gains from a prior investment for funding the Opportunity Fund.

Source: Internal Revenue Service

Only equity investments are eligible for the Opportunity Zone tax incentive.

**1**

Business  
Investments

**2**

Real Estate  
Investments

**3**

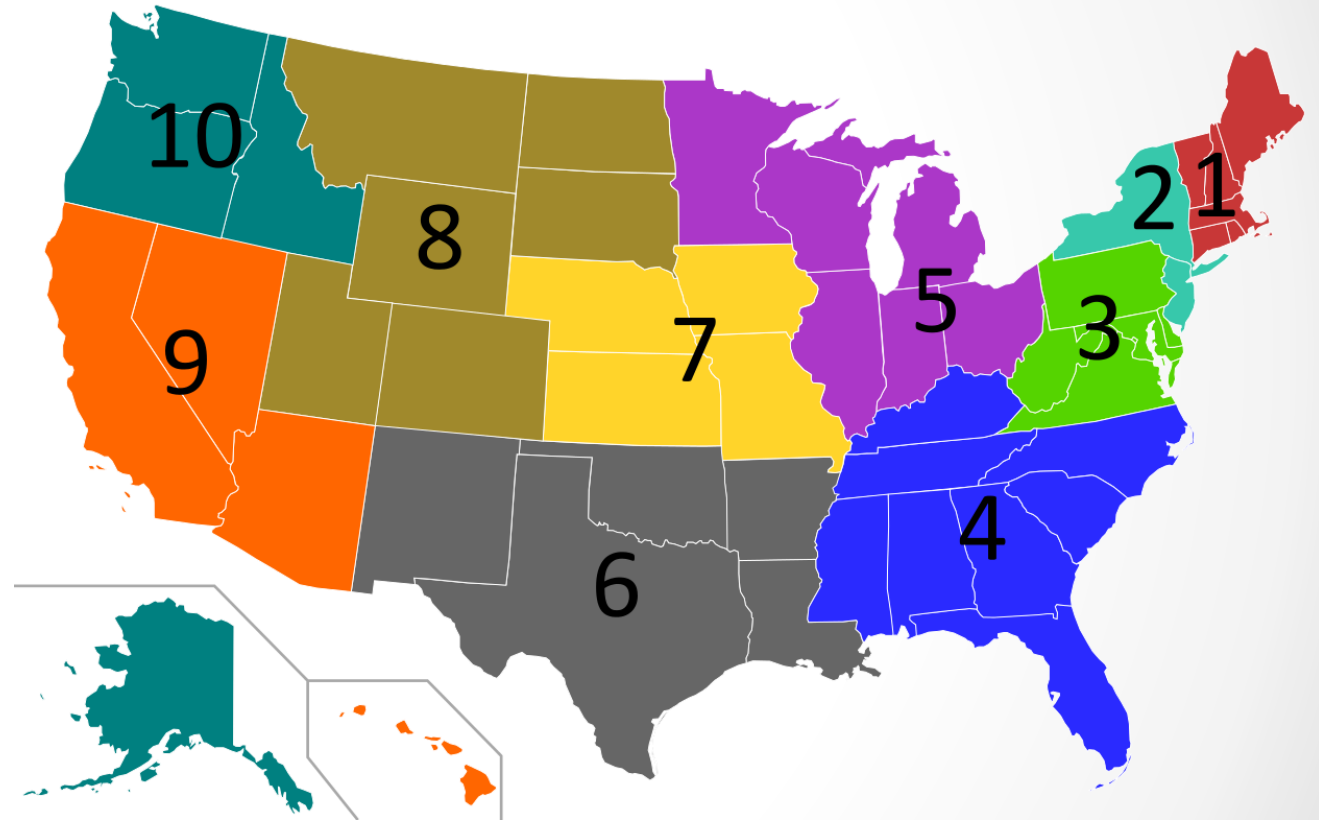
New Equipment and  
Other Assets

# 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 on our website. We will also 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



## Moderator

- **Beth Grigsby, LPG**
  - SME Senior Project Consultant and TAB Partner (KSU)

## I. Opportunity Zones Updates

- **Andrew Seth**
  - President of Sustainable Strategies DC and TAB Partner
- **Kevin Boes**
  - President and CEO, LISC New Markets Support Corporation



## 2. Case Studies

- **Kevin Rogers**-National Fund: PNC Bank
  - Senior Vice President of Community Lending and Investment
- **Chad LaComb**: Local Government: Poised for Investment
  - Acadiana Planning Commission, Louisiana



## 3. Q&A



# Opportunity Zones: Planning for Successful Redevelopment



**Andrew Seth**  
**President of Sustainable Strategies DC**  
**TAB Partner**





# Opportunity Zones

Planning for Successful Redevelopment

**Andrew Seth, Sustainable Strategies DC**

October 4, 2018

# Today's Agenda

- I. Investing in Opportunity Act
- II. Opportunity Zone Basics
- III. Opportunity Zone Tax Incentives
- IV. Opportunity Zones & Brownfields
- V. Getting Started
- VI. On the Horizon



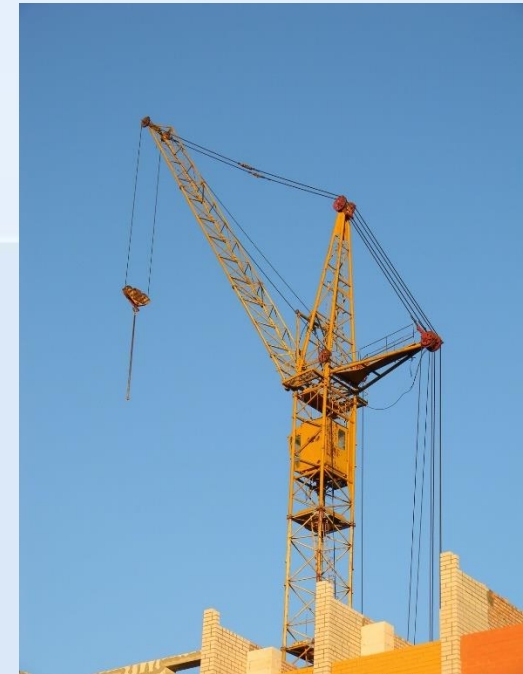
# Investing in Opportunity Act

- 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](https://www.congress.gov/bill/115th-congress/house-bill/1)



# Opportunity Zone Basics

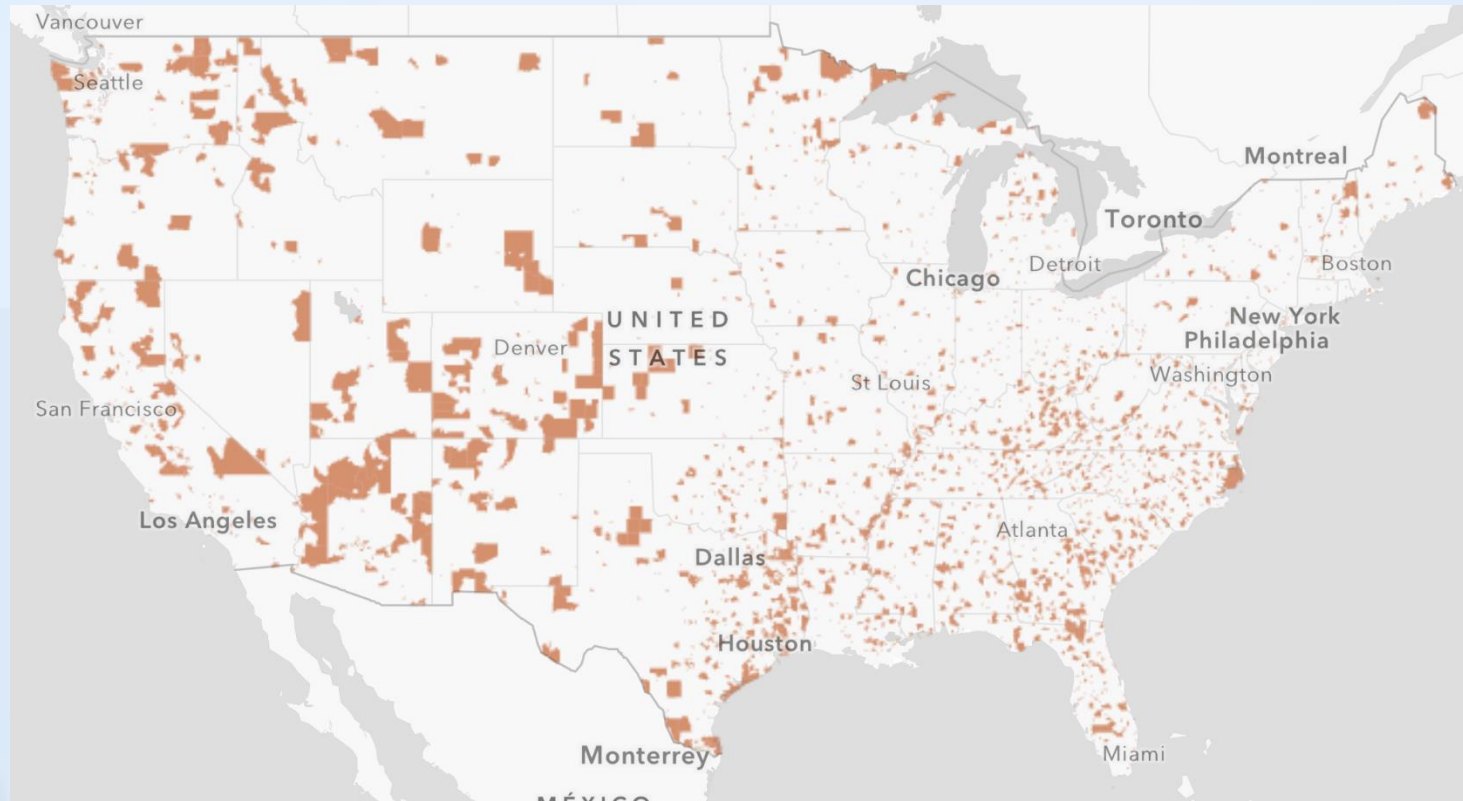
- **Goal** – Encourage long-term private capital investment in low-income urban and rural communities
- **Incentive** – Tax deferrals on original capital gains invested in Opportunity Zones and tax exclusion on new capital gains achieved from Opportunity Zone investments
- **Outcome** – Equity share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



# Opportunity Zone Basics

- Governors designated up to 25% of eligible low-income Census Tracts
- Eligibility:
  - The poverty rate for Census Tract is at least 20%, or
  - The median family income for such tract does not exceed 80% of the statewide (or metropolitan area) median family income
- Treasury Secretary has certified more than 8,700 Opportunity Zones, or 12 percent of Census Tracts nationwide
- Majority of Opportunity Zones are urban and suburban

# Opportunity Zone Basics



# 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



- 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.



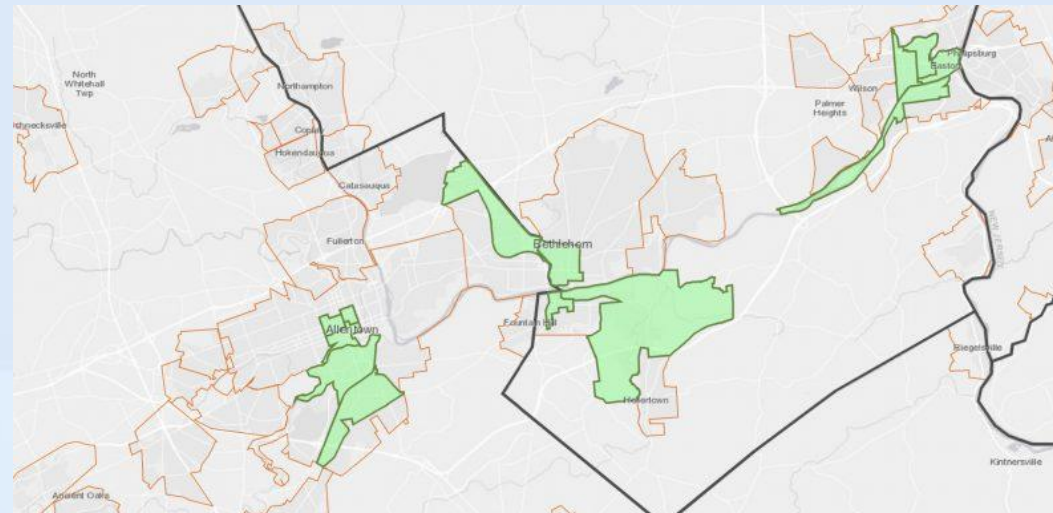
# Opportunity Zones & Brownfields

- 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 to be considered by the Internal Revenue Service as a pre-development cost eligible for Opportunity Zone investment



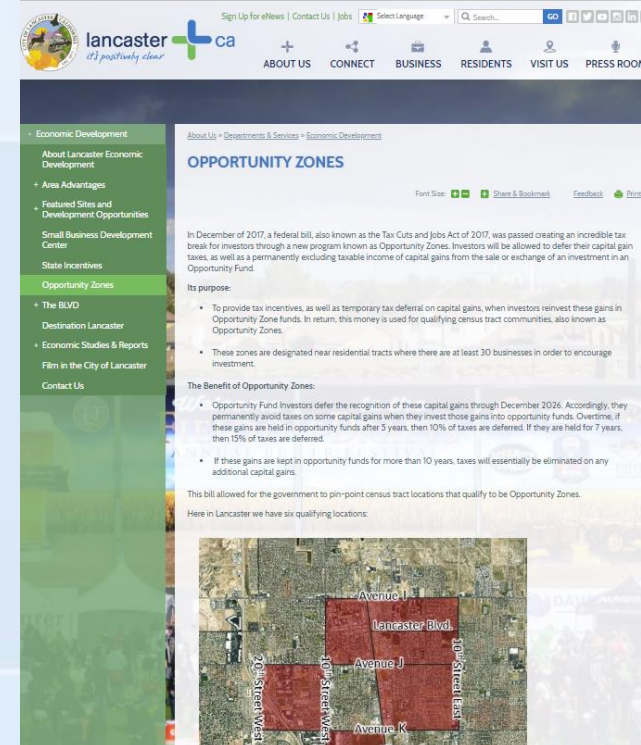
# Getting Started

- Clearly delineate the boundaries of your Opportunity Zone(s)
- Engage developers to identify strong projects that are ready-to-go but for the lack of financing
- Build relationship with State officials managing Opportunity Zone program



# Getting Started

- Develop investment prospectus materials showcasing potential Opportunity Zone projects



# Getting Started

- Conduct tours and forums with key stakeholders (developers, business groups, banks, wealth advisors, tax experts) to build interest in Opportunity Zones
- Gauge interest of the local/regional financial community in creating a nearby Opportunity Fund
- Consider strategies that protect residents and business owners from displacement



# On the Horizon

- Support federal legislation that fixes Opportunity Zone conflicts
- Pursue federal funding (e.g., DOT BUILD grants) within Opportunity Zones – Trump Administration will invest in designated areas
- Share successes with Governor's office – demonstrate to your State that your Opportunity Zone designation was warranted
- Consider contiguous Census Tracts that may be ripe for future Opportunity Zone designation – Congress may authorize another round



# Opportunity Zone Resources

- Economic Innovation Group  
[eig.org/opportunityzones](http://eig.org/opportunityzones)
- Council of Development Finance Agencies  
[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html)
- Treasury Department  
[www.cdfifund.gov/Pages/Opportunity-Zones.aspx](http://www.cdfifund.gov/Pages/Opportunity-Zones.aspx)



# Contact Information

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# Opportunity Zones and Brownfield Redevelopment



**Kevin Boes**  
**President and CEO**  
**LISC New Markets Support Corporation**



# Opportunity Zones

## Opportunity Zones & Brownfield Redevelopment

October 4, 2018

An affiliate of LISC

**NMSc**

New Markets Support Company

National  
Equity  
Fund   
an affiliate of LISC

**LISC**

*Helping neighbors  
build communities*

# Opportunity Funds

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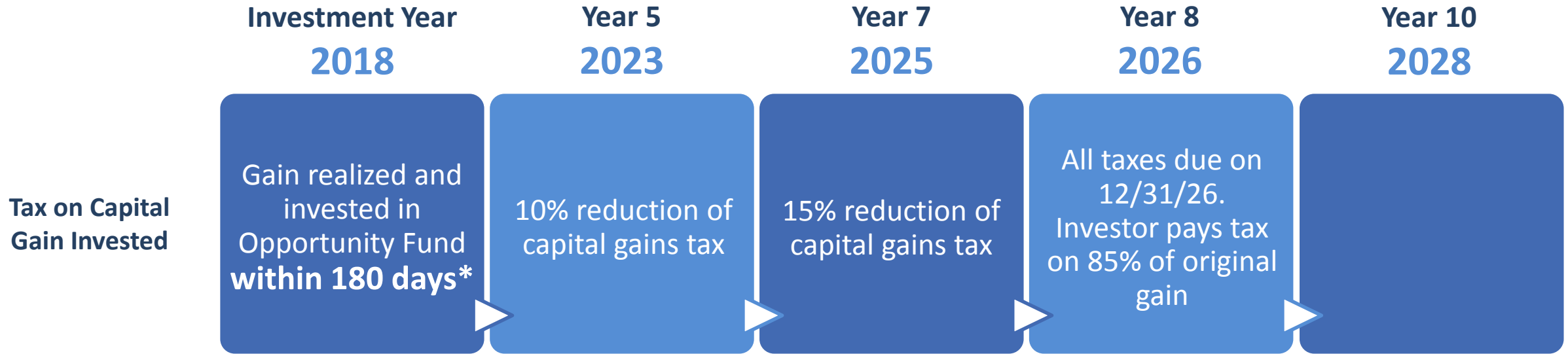
**Opportunity Fund:** An investment vehicle organized as a corporation or partnership for the purpose of investing in Opportunity Zone property.

Opportunity Funds will be self-certified per IRS guidelines. They must be organized for the purpose of investing in Opportunity Zones

Opportunity Funds are required to invest 90% or more of their capital as EQUITY in Opportunity Zone property

Opportunity Zone property includes stock, partnership interest, or business property in an Opportunity Zone

# Investor Timeline



**\* Tax is deferred until the earlier of investment liquidation (return of capital) or 12/31/26**



**\*\* Any appreciation on Opportunity Fund investment is tax free if held > 10 years**

# Opportunity Fund Examples

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## 1 Single Asset Funds:

- *Real estate*
- *Operating businesses*

## 2 Asset Class Funds:

- *Housing*
- *Commercial real estate*
- *Early stage operating businesses*
- *Business expansion or relocation*

## 3 Geographic-focused Funds:

- *National*
- *State*
- *Local*



# Marketing Plan for Small/Rural Communities

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## Marketing Plan Considerations:

- Product positioning
- Community buy-in
- Investor risk mitigation
- Timing

## Local Impact Investor Sourcing:

- Community foundations
- Anchor institutions
- Chambers of commerce
- Investment clubs



# Commercial Development: Market Issues

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## Investors:

- Risk/return and timing issues
- Twinning with LIHTC and HTC
- 10 year hold issues
- Indemnity/guarantee requirements
- Impact investors vs. financial investors

## Deal structures / capitalization:

- Warehouse financing
- Straight equity vs. leverage structures
- LP equity vs. preferred equity
- Non-recourse project debt
- Structuring projects for 2026 tax payment and sale or refinancing after 10 years

# Guidance Expected: Regulations

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## 1. Gains eligible for investment

- Eligibility of ordinary or short-term capital gains

## 2. 90% test

- 180 days or 30 months to invest 90% of fund capital

## 3. Substantial rehab rule

- Doubling asset basis based on cost or FMV; operating business net assets or total assets

## 4. Reinvestments

- Ability to recycle capital without triggering a tax event

## 5. Timeframe for investment

- Expiration date for investments to receive tax-free appreciation benefit

# Key Points

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## Investors

- Tax incentive is most valuable for 10 year investments in appreciating assets
- Six months to invest after realizing a capital gain
- Another six months to deploy 90% of capital in Zones
- Capital is required to be an equity investment – loans from investors are not eligible for the tax incentive

## Funds

- All capital must flow through an Opportunity Fund to be eligible for the tax incentive
- Funds are self-certified via an IRS tax form
- Fund must be established for the purpose of investing in Opportunity Zones
- 90% of fund assets must be invested in Zones to maximize the tax incentive

## Eligible Investments

- Must be equity investments
- Real estate investments must include substantial rehabilitation – doubling basis within 30 months
- “Sin businesses” are not eligible
- Other requirements include property use in “active conduct of business” and limits on assets held in cash

# Strengths

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## Local

Designations are made by states and localities, rather than Federal agencies, ensuring more local buy in and coordination

## Flexible

The flexibility of the investment tool can support investments in any type of asset class

## New Investor Class

The incentive has the ability to attract high net worth individual investors to community development finance

## Potential

The incentive could attract hundreds of billions of private sector capital into low-income communities

## Straightforward

The tool is relatively straightforward from an investment and compliance standpoint, in comparison to LIHTC and NMTC

# Potential Concerns

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## Lack of Oversight

Lack of oversight from government entities could lead to program abuses

## Lack of Impact Incentives

Incentives focus on back-end returns, rather than investments that will result in community impacts

## Gentrification and Displacement

The tool might aid in the gentrification and displacement of residents and businesses in Opportunity Zone communities

## Future of Other Tax Incentives

The new incentive might be used as an excuse to diminish or eliminate other community development tax incentives, such as the NMTC program



OPPORTUNITY ZONES

# Resources and Tools

Visit [LISC's Opportunity Zones pages](#) for:

- A [mapping tool](#) of designated census tracts
- Federal and state [government resources](#) and updates
- [LISC and partner resources](#), including presentations and webinar recordings
- Opportunity Zones and Opportunity Funds [FAQ](#)
- A sign-up form for our Opportunity Zones [email updates](#)

[lisc.org/opportunityzones](https://lisc.org/opportunityzones)

Other Opportunity Zones resources:

- The [Investing in Opportunity Act](#)
- Community Development Financial Institutions [\(CDFI\) Fund Opportunity Zones updates](#) and resources
- Economic Innovation Group [\(EIG\) Opportunity Zones pages](#) for related news, background information, and a list of bipartisan supporters

# Contact Information

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NMSC

# National Fund: PNC Bank



**Kevin Rogers**  
**Senior Vice President**  
**Community Lending and Investment**  
**PNC Bank**



# Local Government: Poised for Investment



**Chad LaComb, JD**  
**Project Specialist**  
**Acadiana Planning Commission**  
**Lafayette, Louisiana**



# Building a Better Opportunity Zone

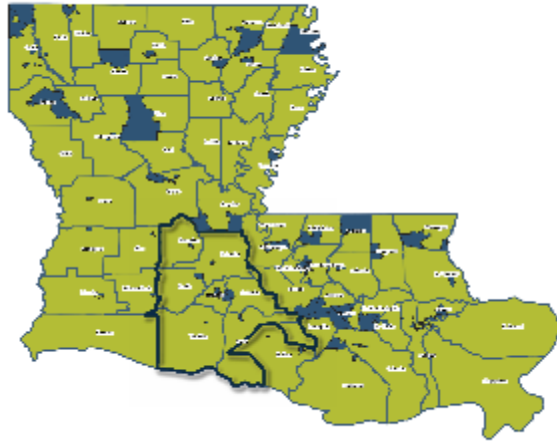
*Key Strategies for Local Government to Drive Their Opportunity Zones Forward*

Chad M. LaComb, JD  
Economic Development Specialist  
Acadiana Planning Commission  
Lafayette, La



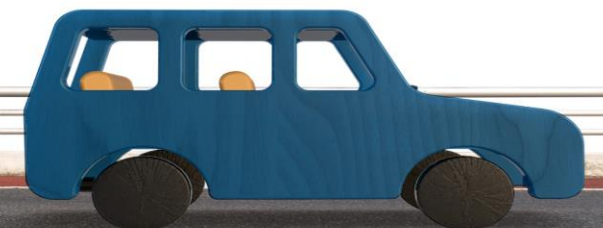
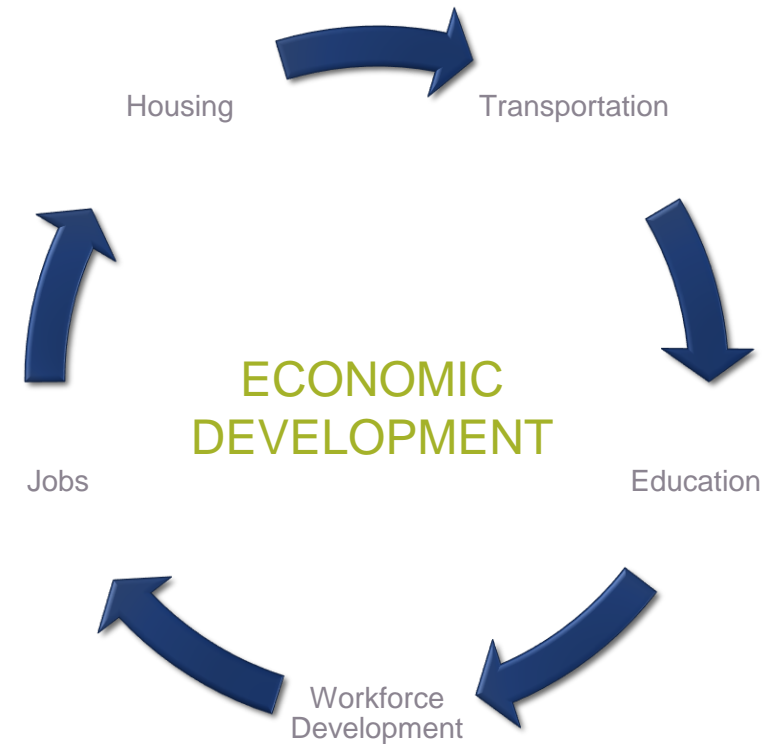
# *Opportunity Zones in Louisiana*

- Total of 150 Statewide
- 21 in Acadiana Region



# ***Nomination Strategy for Acadiana***

- Tied to Regional Comprehensive Economic Development Strategy (CEDS)
- Focused on Redevelopment of Urban Core for Metro Areas
- Centered on Downtown and Main Street Revitalization in Smaller Communities





# Layering Resources to Build a Better Opportunity Zone





# *Using Urban Systems Transportation Funds for Corridor Study*

- Improve functionality and safety of Federally Aid Eligible Corridor within Opportunity Zone
- Feasibility of implementing a Complete Street Conversion along target Corridor
- Improved walkability and access to transit
- Also funds the study of land use, real estate market analysis and identification of catalyst sites along the corridor.
- Can be used as the basis for a Transportation BUILD grant application to fund the study's recommendations.



# ***Brownfield ARC Funds***

- Assessment grants can be used to target Phase I and II ESA's of catalyst sites along corridor, and develop cleanup plans at no cost to potential purchasers.
- Used to develop an inventory of POTENTIAL brownfield sites along corridor.
- Revolving loan fund and Cleanup grants can be used to clean up catalyst sites and put them back into commerce



# ***Historic Preservation Tax Credits***

- State and Federal Historic Preservation tax credits can offset the cost of rehabbing historic structures
- Up to 40% of qualified project costs
  - 20% Federal tax credit
  - 20% state tax credit
- ***Provides Instant Equity for Potential Opportunity Zone Investors!!!***



# ***State Cultural Districts - Louisiana***

- Provides a vehicle for the redevelopment of historic structures that are in an area that would not qualify as a historic district
- Access to 20% State Historic Preservation Tax Credits
- Provides for a reduction of state sales tax on works of Art
- Designed to encourage “**Culturepreneurs**”





TIPS....



# *Promoting Opportunity Zones*

- Prepare marketing materials for designated opportunity Zones
- Conduct workshops for potential investors, developers, and real estate agents.
- Facilitate the development of a local opportunity fund.
- Form partnerships with key stakeholders such as banks, local community foundation, etc. – Steering Committee.



# Question and Answer Session



**Andy Seth**  
**President of Sustainable Strategies DC**  
**TAB Partner**





# TAB National Opportunity Zone Webinars

## *Next Steps*

The Council of Development Finance Agencies (CDFA) will join TAB, Sustainable Strategies DC, LISC and TAB partners in our next national webinar to continue to provide additional resources and local examples of best practice as they surface. Stay tuned!

***Stay Tuned!!***



# Presenter Contact Information

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# TAB Assistance Providers

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

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

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

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