

**OPPORTUNITY
ZONES**

**An Analysis,
Explanation and
Case Study on Zone
Development**

Presented by
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**60 YEARS
STRONG**
KnoxLaw

KnoxLaw
PUBLIC STRATEGIES

Qualified Opportunity Zones/Funds



**First pitched by the
Economic
Innovation Group**

 <https://eig.org/>

• Published white paper [Unlocking Private Capital to Facilitate Economic Growth in Distressed Areas: 2015](#)

**Adopted by Congress in the Tax Cuts and
Jobs Act of 2017**

- Prime Sponsors were Senators Tim Scott (R – SC) and Cory Booker (D – NJ), and Congressman Pat Tiberi (R- Ohio) and Ron Kind (D- Wis).
- **Opportunity Funds are designed to be an aggressive investment of patient capital in low income communities.**
- Federal Tax Incentive designed to encourage re-investment of unrealized capital gains into low income census tracts designated by Governors as Opportunity Zones.

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PUBLIC STRATEGIES

Qualified Opportunity Zones / Funds



Opportunity Zones need investment

- Nearly 35 million Americans live in communities designated as Qualified Opportunity Zones;
- Unemployment rates are 1.6 times higher in Opportunity Zone census tracts than the average United States census tract;
- Median family incomes in Opportunity Zones are 37 percent lower than their respective area's or State's median;
- The average poverty rate across Opportunity Zones is more than 32 percent, almost double the rate of approximately 17 percent for the average United States census tract;
- One in four Opportunity Zones have a poverty rate over 40 percent, compared to one in 15 census tracts nationwide;
- The homeownership rate in Opportunity Zones is approximately 15 percentage points lower than the national average;
- Life expectancy is on average three years shorter for Opportunity Zone residents than it is nationally; and
- Approximately 22 percent of Opportunity Zone adult residents have not attained a high school diploma, compared to 13 percent nationally.



Qualified Community Zones/Funds



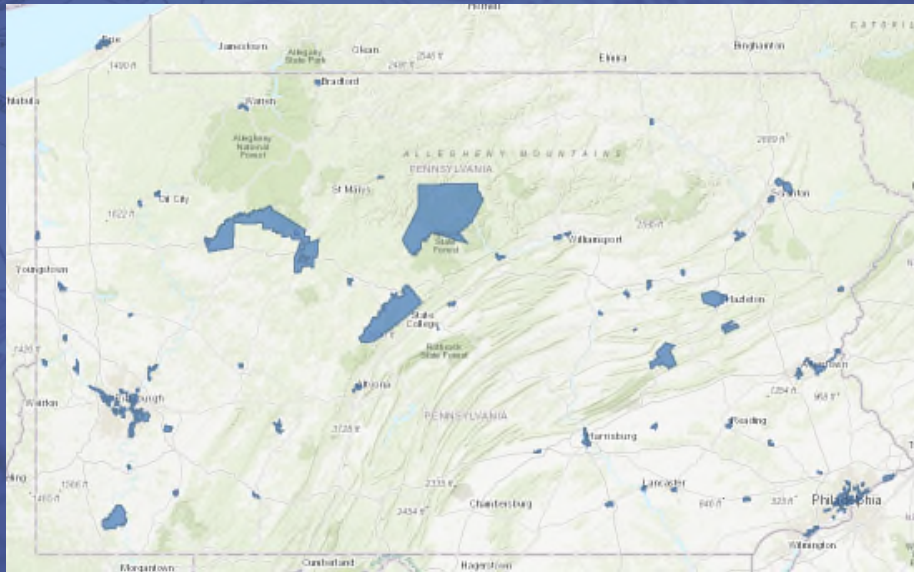
Census Tracts were designated by Governors and certified by US Treasury

- Low-income community census tracts (and contiguous census tracts)
- Up to 25% of the total eligible census tracts could be selected, to a maximum of 300 per State
- Over 8700 tracts designated nationally

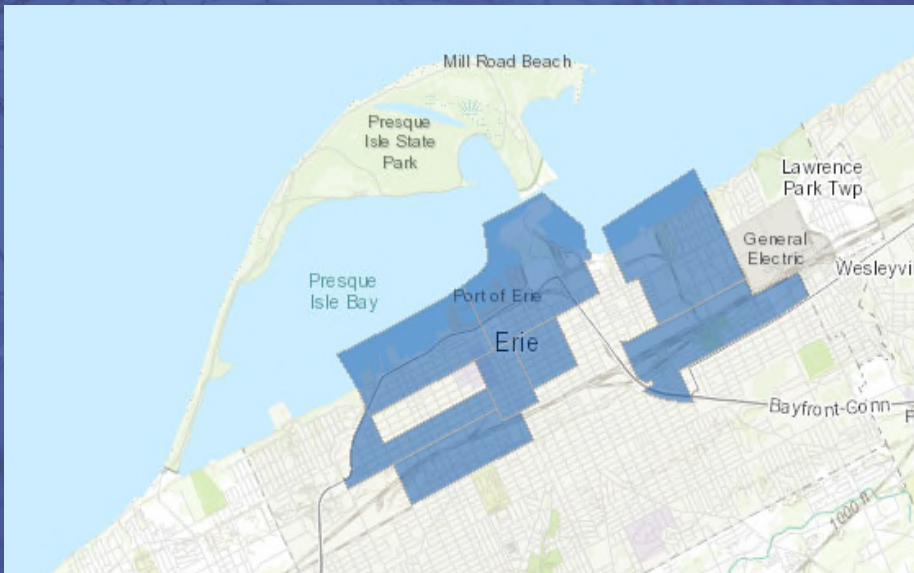
 https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml



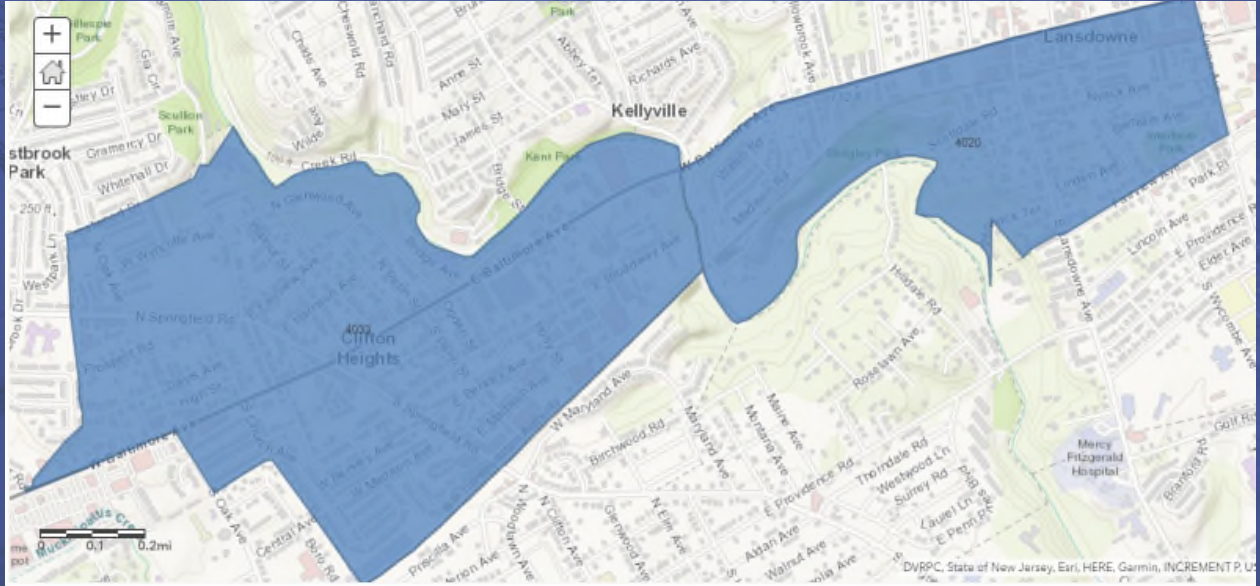
Pennsylvania Zones



Erie Opportunity Zones

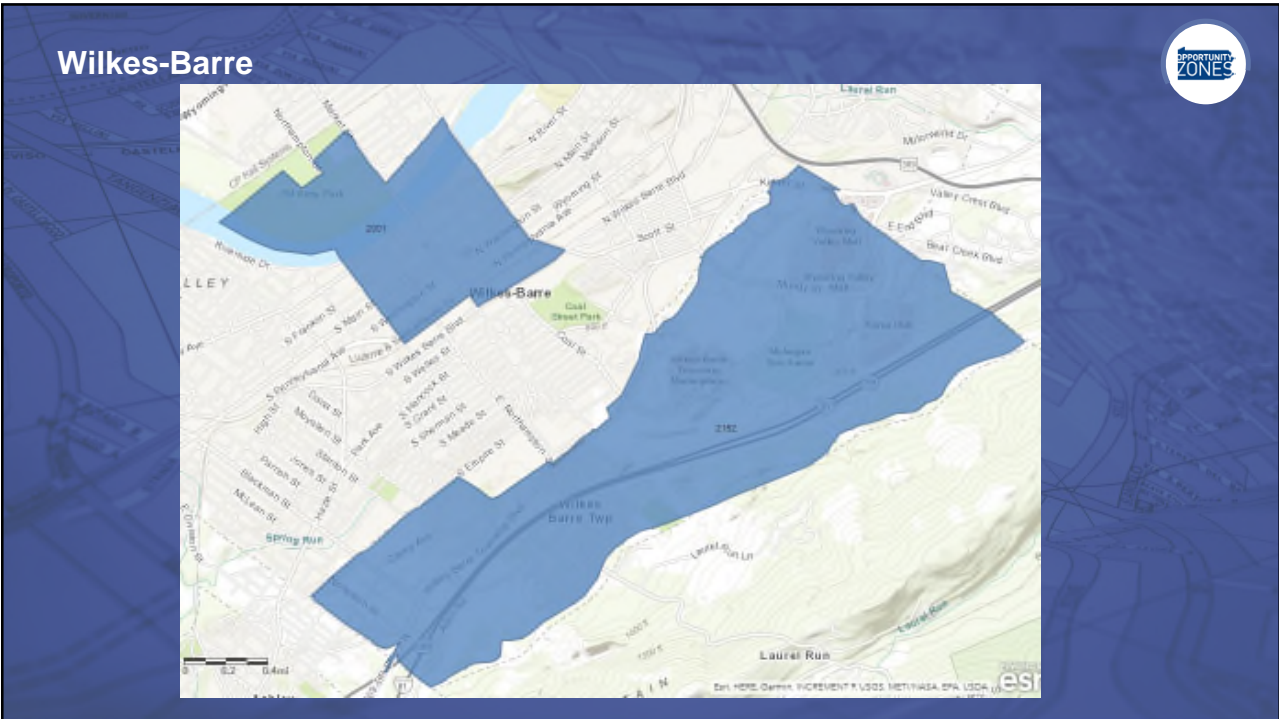
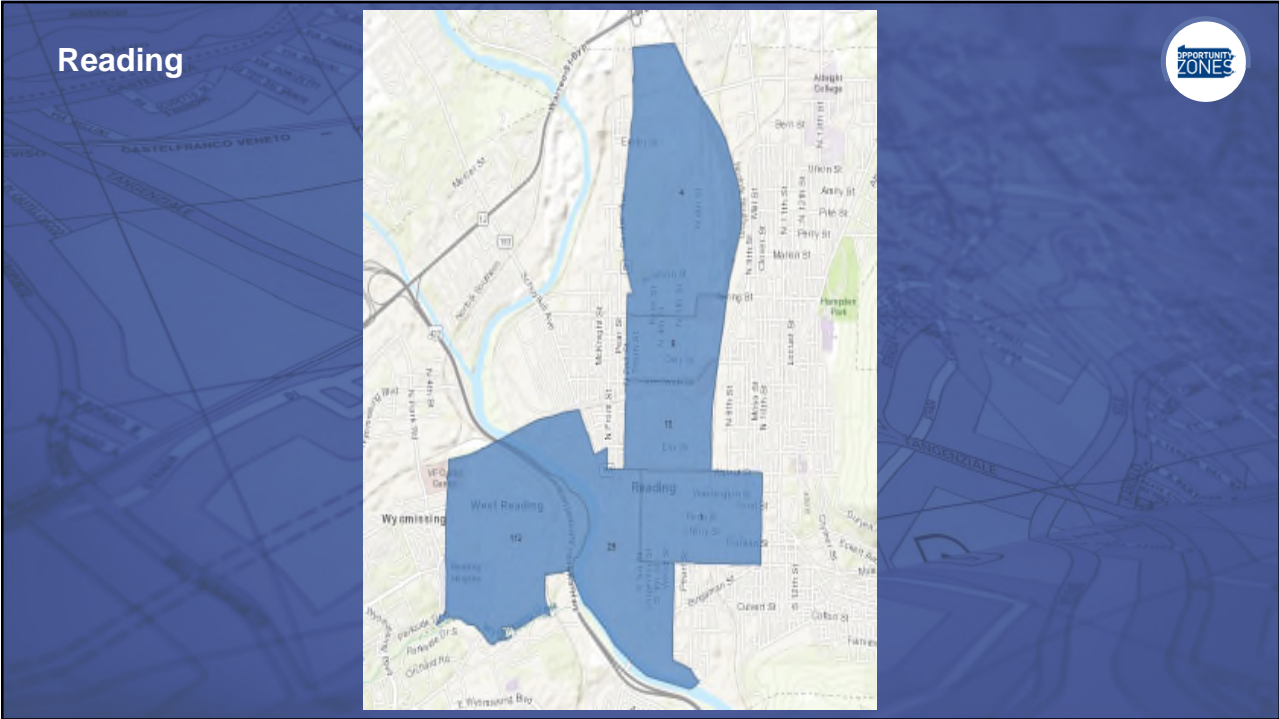


Clifton Heights / Lansdowne

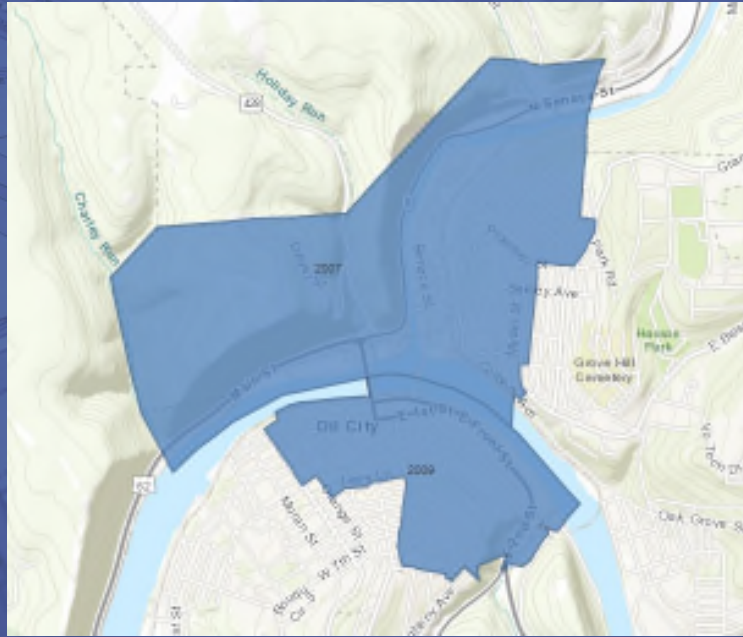


Chester





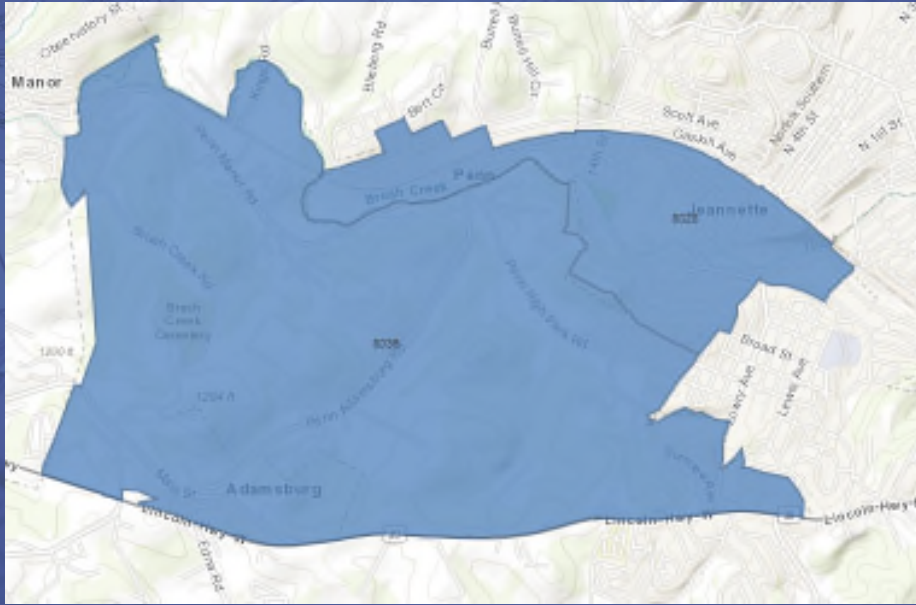
Oil City



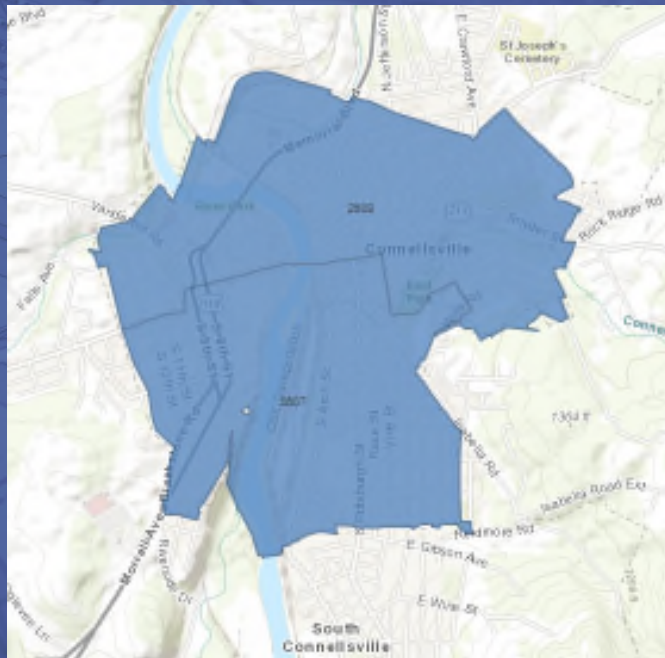
Franklin



Jeannette/Manor



Connellsville



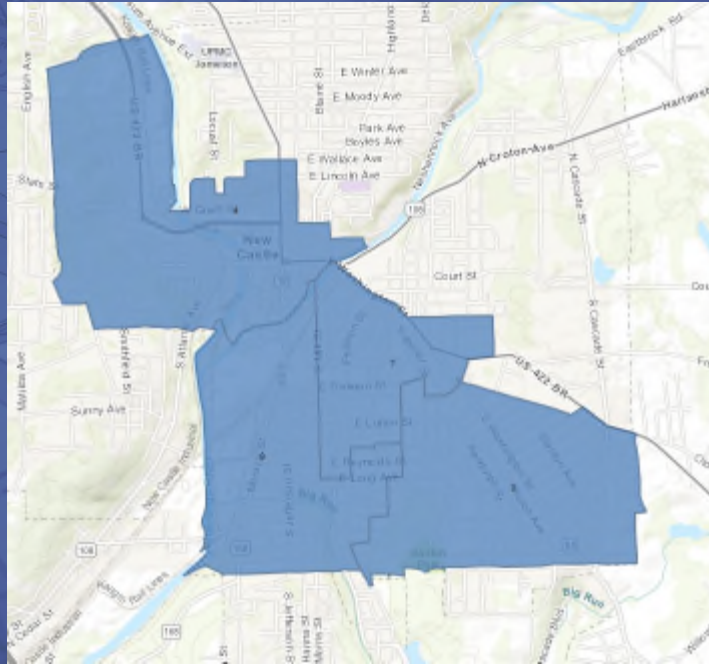
Midland



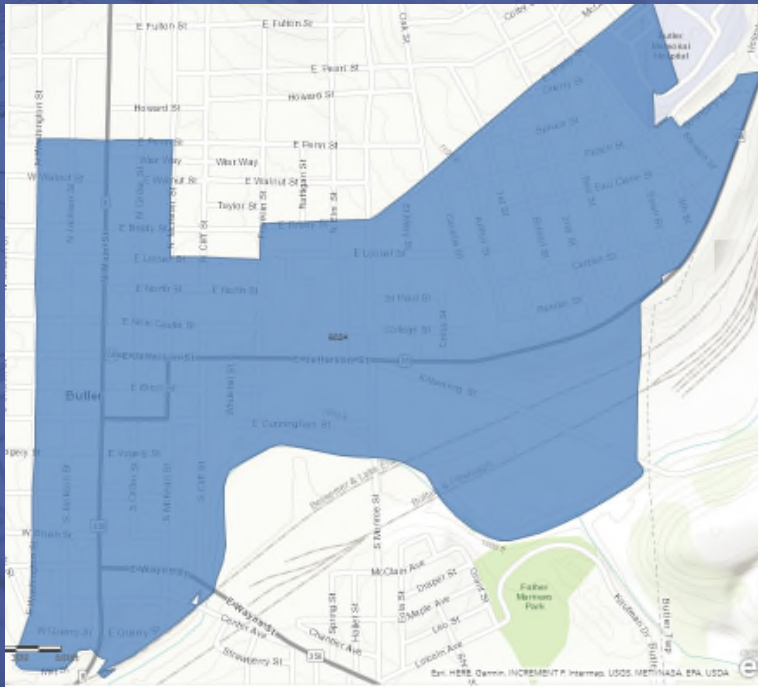
Patterson Twp.



New Castle



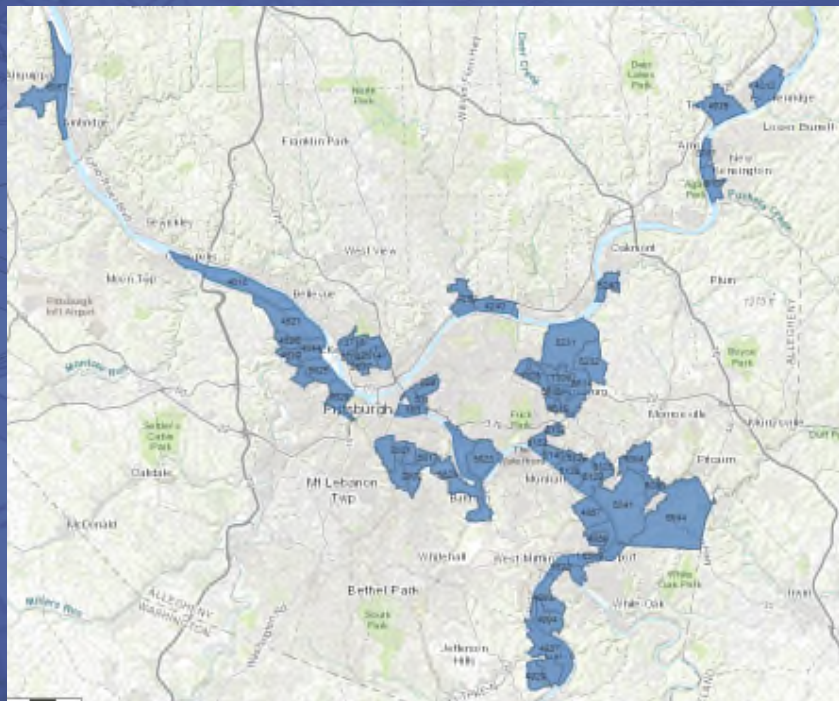
Butler



Sharon



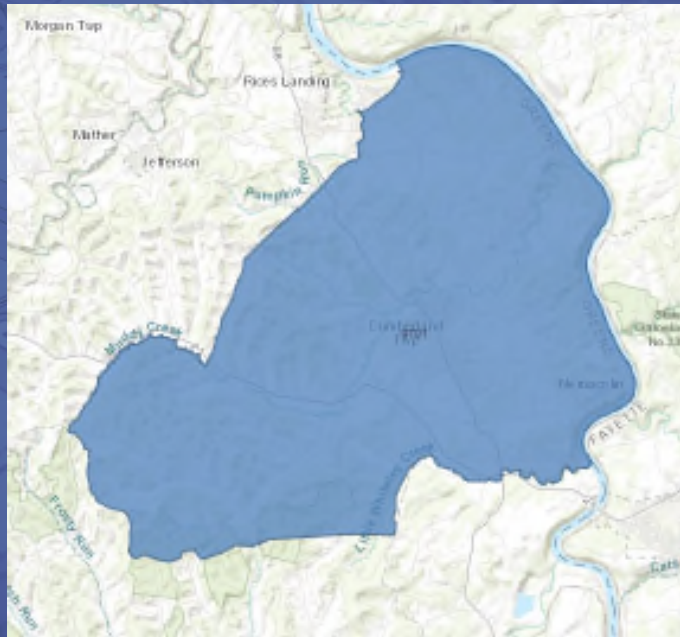
Pittsburgh Area Aliquippa New Kensington Mt. Lebanon

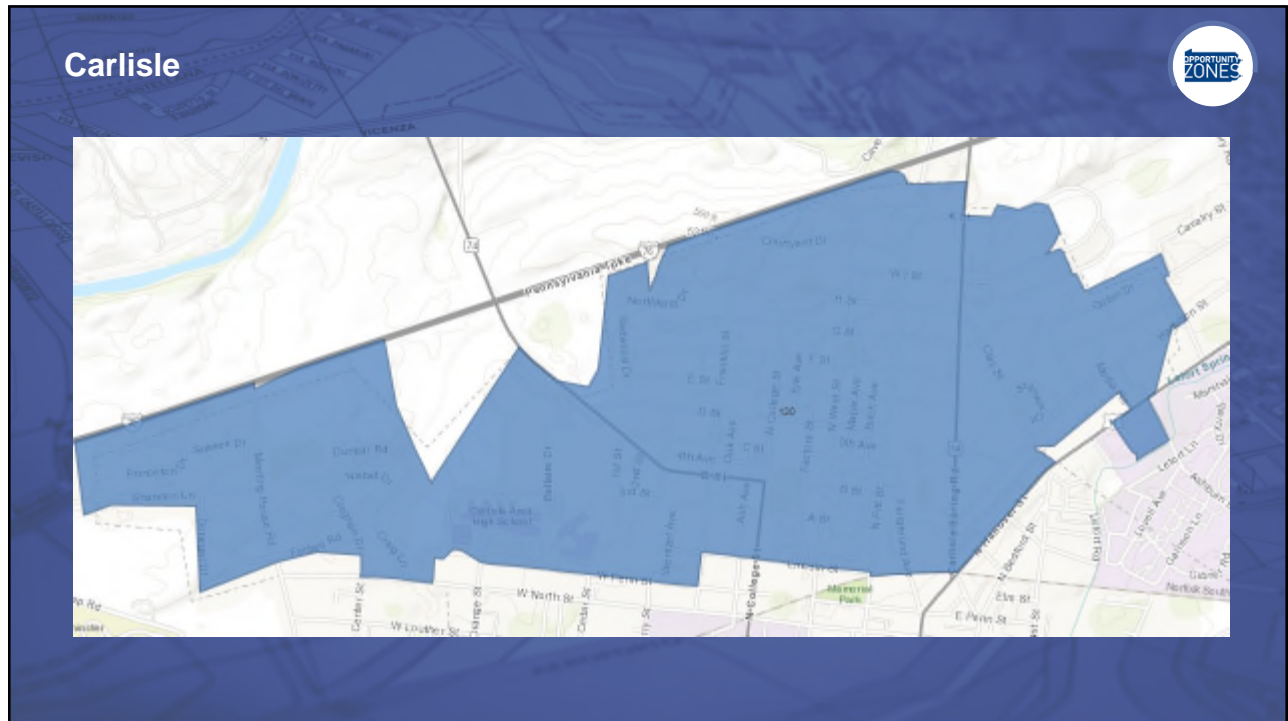
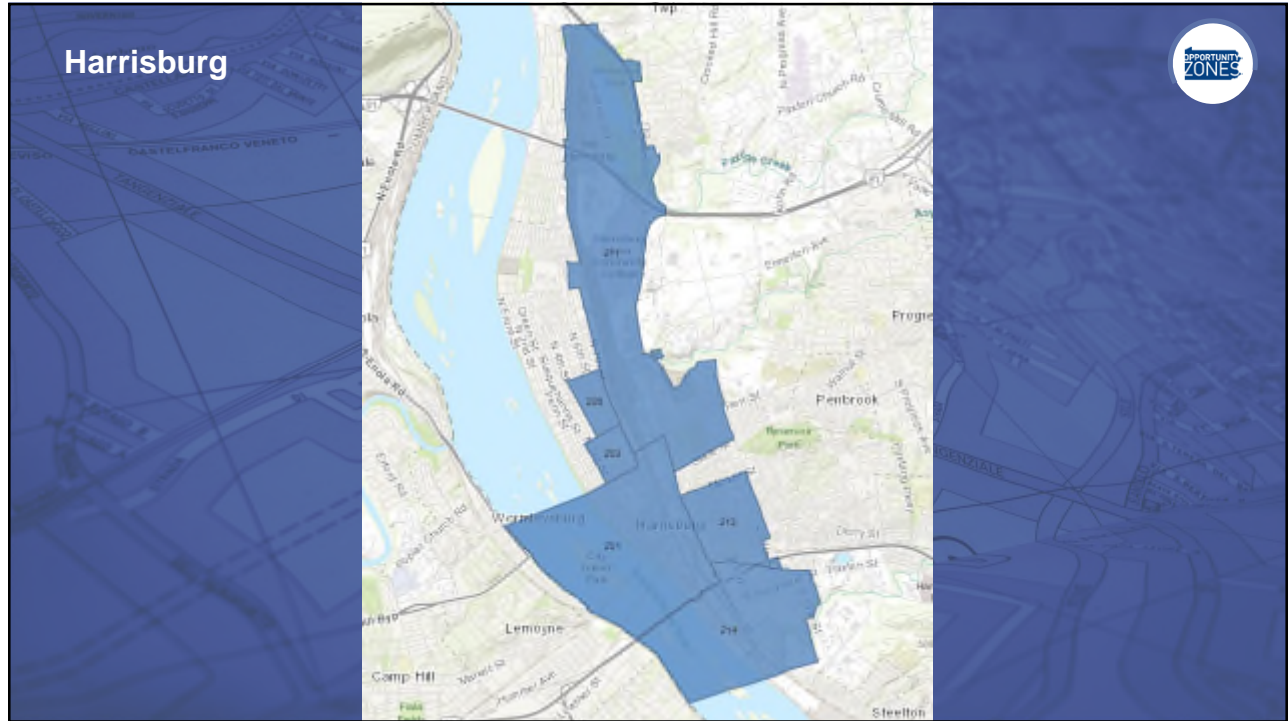


Charleroi



Cumberland Twp





Qualified Opportunity Zones / Funds



Tax Benefits of Capital Gain Investment

- Deferral
- Reduction
- Exemption

Investor Rollover of Capital Gains

- 180 Day rollover from Gain



Qualified Opportunity Zones / Funds



Tax Deferral on Original Capital Gains

- Until December 31, 2026

Tax Reduction

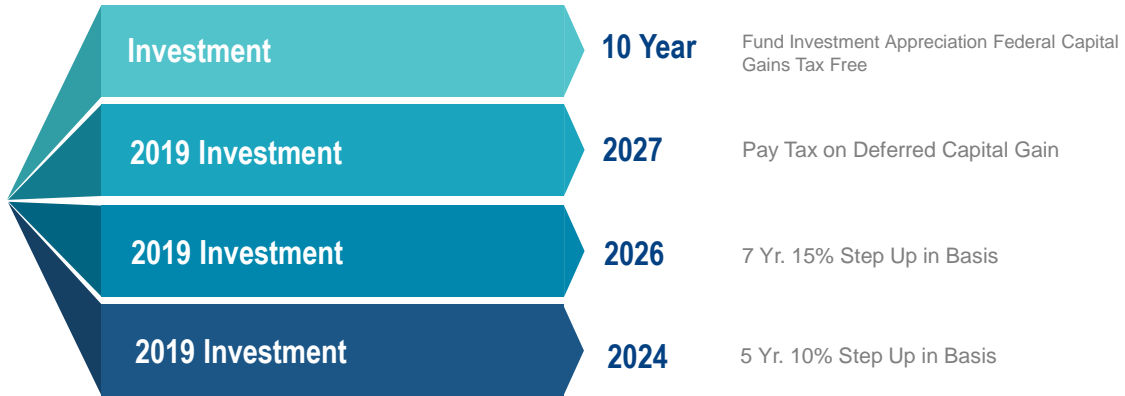
- 5 Years, 10% Step up in Basis
- 7 Years, 15% Step up in Basis

Tax Exemption on Earned Capital Gains

- 10 years, appreciated is federal capital gains tax free



Qualified Opportunity Zones / Funds



12/31/28 Opportunity Zone Designation Ends

12/31/47 Incentive Program Ends



Regulations



Notations within presentation with an *asterisks* indicate the application of proposed regulations



Qualified Opportunity Zones / Funds



180 Day Rollover of Capital Gains

- Into a Qualified Opportunity Fund
 - Traditional Securities Offering
 - Accredited Investors
- Self-Certification
 - LP, Corp or LLC as Partnership or Corp
 - Filing of Form 8996



Qualified Opportunity Zones / Funds



Form 8996 – Qualified Opportunity Fund

- Initial Self-Certification and annual reporting of 90% Asset Test
- Attached to the taxpayers Federal Income Tax Return for relevant years
- <https://www.irs.gov/pub/irs-pdf/f8996.pdf>



Qualified Opportunity Zones / Funds



180 Day Calculation

- *180 Days from Gain or from end of taxable year for Partnerships and other pass-through entities if gain is distributed to partners*

Rollover Forms

- *Form 8949 to be updated to elect deferral to a QOF*



Investments



Qualified Opportunity Funds may invest in Property or Equity

- Qualified Opportunity Zone Property
 - Qualified Opportunity Zone Stock
 - Qualified Opportunity Zone Partnership Interest, or
 - Qualified Opportunity Zone Business Property



Investments



Qualified Opportunity Funds may not invest in Sin Businesses

“

private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.



Investments



Investments are to be either:

- Original Use, or
- Substantial Improvement



Investments



Original Use:

- Vacant or unused real property (5 years)
- Tangible property
 - Placed in use in a QOZ prior to tax payer taking depreciation

Substantial Improvement:

- On going real estate enterprise: Basis plus investment (30 months)
- Real estate: *Substantial Improvement basis calculated on value building, not land value* *IRS Rev. Rul. 2018-29*



Investments



General Runway

- *Minimum 6 months to meet 90% spend requirement*
- *12 month reinvestment period*

Real Estate

- *Regulations permit a business to hold Opportunity Fund investment as working capital*
 - *up to 31 months if
 - there is a written plan reserving the working capital for
 - the acquisition, construction or substantial improvement of tangible property in an opportunity zone and the plan identifies a schedule of expenditures.*





Opportunity Funds are designed to be an aggressive investment of patient capital.



Investments



Depending on the Investor's Goals, Funds could invest in:

- Venture
- Industrial
- Equity
- Real Estate Development
- Housing Development
- Public Private Partnership
- Community Development
- Impact Investing



Investments



Identify Qualified Projects

- Located in Qualified Opportunity Zone
- Substantially All of the Business Conducted in the Zone
 - *Substantially All to be defined as 70%*
- At least 50% of gross income must be derived from the active conduct of a trade or business within the Zone, and a substantial portion of intangible property must be used in the active conduct of a trade or business within a Zone.



Investments



3 Safe Harbors and 1 Fact and Circumstances Test

- Safe Harbors: 50% of performed in QOZ:
 - Hours
 - Amount paid to employees/contractors
 - Measuring management and operations plus tangible property storage/use necessary to generate 50% gross income
- Facts and Circumstances Test



Investments



Identify Qualified Projects

- Intangible property used in the business must be acquired by purchase after 12/31/17
- Working Capital Threshold
 - Less than 5% of the average of the aggregate unadjusted basis of the property of the entity is attributable to nonqualified financial property (i.e. cash, securities, notes, etc.)
- Working Capital Safe Harbor
 - Amounts in excess of Working Capital Threshold permitted for up to 31 months if there is a written plan that identifies how the capital will be used in the continued development of the business, including acquisition, construction and/or substantial improvement of tangible property.



Investments



Must involve Equity Acquisition

- LP/Partnership Interest
- Corp/Equity
- *Regulations clarify that LLC classified as a partnership or corporation may be Qualified Opportunity Zone Business Property*

Remember to factor in cost of Substantial Improvement Investment obligations.



Investment Safe Harbor



If Regulations are applied in their entirety and in a consistent manner a taxpayer may rely on proposed Rules prior to final adoption.



White House Opportunity and Revitalization Council



December 12, 2018, Executive Order Establishing the White House Opportunity and Revitalization Council (WHORC)

- Chaired by Secretary of HUD and Vice Chair is Assistant to the President for Domestic Policy

Main Goals

- Prioritize Federal investment and funding in OZ's
- Minimize regulatory/administrative burdens to investment in OZ's
- Coordinate efforts with State and local officials



White House Opportunity and Revitalization Council



April 17, 2019 WHORC Conference

<https://www.hud.gov/sites/dfiles/Main/documents/WHORC-Implementation-Plan.pdf>

Implementation Plan

- 160 + funding programs redesigned to align with Opportunity Zones

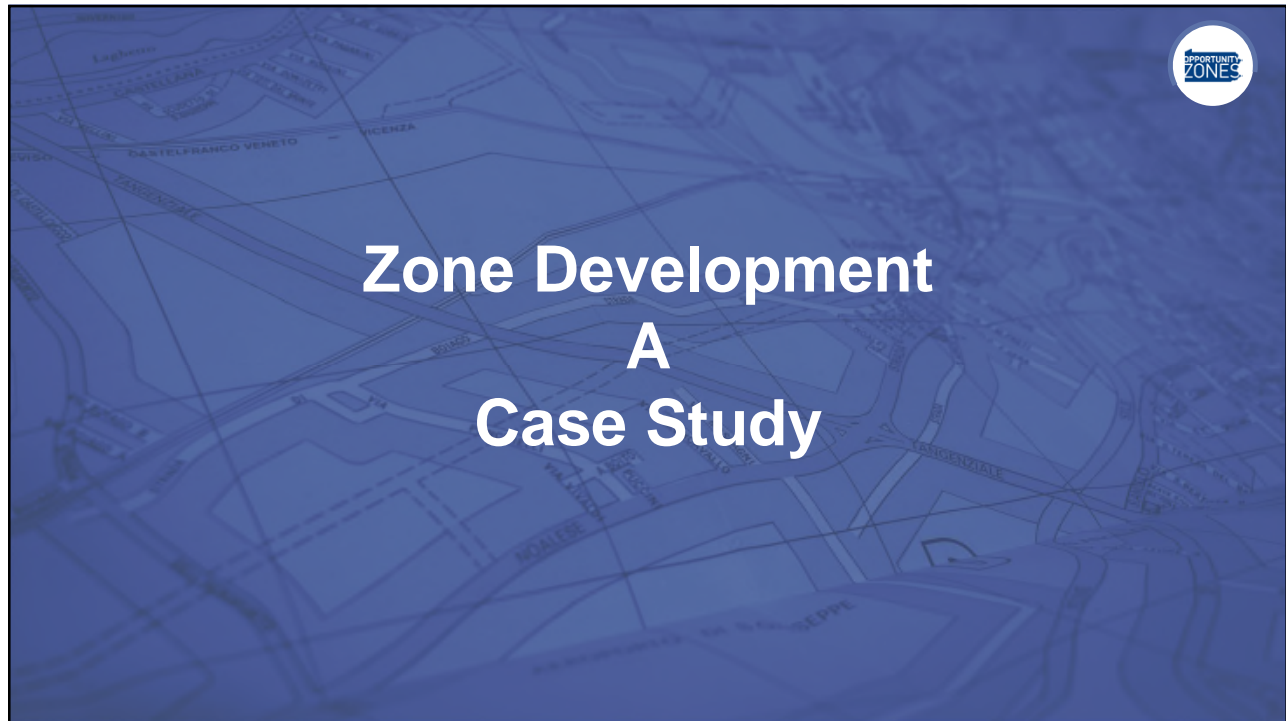


White House Opportunity and Revitalization Council



White House Opportunity and Revitalization Council Work Streams			
Work Streams	Lead Agency	Supporting Agencies	Action Items
Economic Development	Department of Commerce	Small Business Administration; Department of Housing and Urban Development; Department of Agriculture; Treasury Department; Department of Transportation; Department of Health and Human Services; Council on Environmental Quality; Environmental Protection Agency	Leverage federal grants and loans in a more integrated way to develop dilapidated properties and provide basic infrastructure and financial tools to attract private investment.
Entrepreneurship	Small Business Administration	Department of Commerce; Department of Energy; Department of Agriculture; Department of the Interior	Leverage government lending and grants to stimulate access to private capital, and promote programs that assist entrepreneurs.
Safe Neighborhoods	Department of Justice	Department of Health and Human Services; Environmental Protection Agency; Department of the Interior	Combat drug addiction and the opioid crisis, reduce crime/enhance public safety, and address environmental contamination obstacles to development.
Education and Workforce Development	Departments of Education and Labor (co-leads)	Department of Health and Human Services; Department of Agriculture; Department of Commerce; Department of Energy	Improve the efficacy of K-12 and community college career and technical education and workforce-development programs to better prepare workers in distressed communities for jobs.
Measurement	Council of Economic Advisers	Treasury Department; Department of Housing and Urban Development; Department of Commerce	Develop robust reporting and analytics to measure impact of Opportunity Zones.





Opportunity Zone Development



Opportunity Funds are designed to be an aggressive investment of patient capital.

Oz's must have:

1. Shovel ready & investor ready projects,
2. Technical Expertise, and
3. Community commitment to close the deal.

Knox Law Public Strategies



5 Steps to Opportunity Zone Development

1. Stakeholder Education
2. Investor Identification and Education
3. Project Identification and Preparation
4. Fund Development and Identification
5. Project Promotion



<https://www.kmgslaw.com/about-us/public-strategies/opportunity-zones>



Case Study: Erie, PA



Community Partners




Flagship Opportunity Zone Development Company

EDDC

Community And Government Partners

Supportive/ Trailblazing Investment



Community Partners



PORT of ERIE

Seal of the City of Erie

Seal of the State of Pennsylvania

ERIE COUNTY PENNSYLVANIA

Senator Dan Laughlin

ERIE REGIONAL CHAMBER AND GROWTH PARTNERSHIP

Ben Franklin Technology Partners Central & Northern PA

Erie Insurance

EDDC ERIE DOWNTOWN DEVELOPMENT CORPORATION

KnoxLaw PUBLIC STRATEGIES

ERIE EVENTS

ERIE DOWNTOWN

ERIE COUNTY ECONOMIC DEVELOPMENT

ECGRA

JEFFERSON EDUCATIONAL SOCIETY

SERVERIE

H·A·N·D·S

Pennsylvania's Flagship Opportunity Zone



www.FlagshipOpportunityZone.com



Erie Downtown Development Corp.



- Nonprofit development corporation supported by a nearly \$30M private equity fund dedicated to serve as gap-financing to facilitating transformational change within the Central Business District.
 - Institutional investors of patient capital.
- Private equity designed to be leveraged with Opportunity Funds, traditional financing and government funding.
- To acquire underutilized property for redevelopment in accordance with a master development plan.



Erie Downtown Development Corp.



Flagship Opportunity Zone Development Company

- Mission is to cultivate a robust portfolio, promote viable and socially impactful projects, and unlock local capital to transform Erie.



www.FlagshipOpportunityZone.com



Trailblazing Investment



Erie has Community Development Partners investing in physical zone development



Private Local Investment



\$600M

- Erie Insurance | \$135 Million
- UPMC Hamot | \$111 Million
- St. Vincent Allegheny Health Network | \$115 Million
- Velocity Network | \$8 Million
- Gannon University | \$16 Million
- Mercyhurst University | \$5 Million
- Scott Enterprises | \$160 Million



Erie Downtown Partnership



Erie Downtown Partnership



Erie Innovation District



What is a Smart City?

Smart cities seamlessly integrate information and communication technologies with the Internet of Things (IoT) to increase efficiency, reduce costs and enhance communications between networks. Doing so enables cities to leverage their technology to create a more cohesive environment across multiple public services, including public safety, transportation and resource management.



Investments



Velocity Net \$8M



Erie Insurance \$135M 600 New Net Jobs



UPMC Hamot \$111M



Harbor Place Phase 1 - \$160M

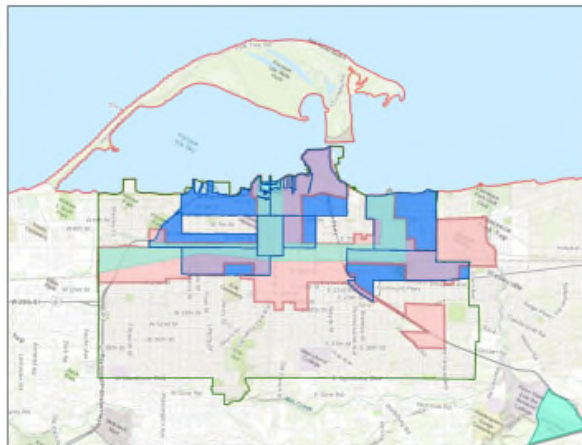


Gannon University

Layered Incentives



Layered Incentivization Zones



- Incentive Zones**
- Opportunity Zones
- Enterprise Zones
- Keystone Innovation Zones
- Boundaries**
- Erie County (MSA)
- Erie City

<https://www.flagshipopportunityzone.com/opportunity-zones-in-erie>



Government Investment - \$50M



Over \$50M from the Commonwealth, designed to de-risk investment for the private sector

- capital projects
- infrastructure improvements
- neighborhood supports
- environmental sustainability



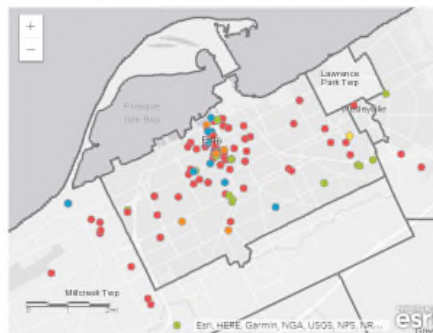
Government Investment - \$50M



Over \$50 Million in Ongoing Investments from the Commonwealth

The Commonwealth of Pennsylvania, through various agencies, has invested tens of millions of dollars in a concentrated manner to protect and de-risk investment for the private sector. Investments include capital projects, infrastructure improvements, neighborhood support, and environmental sustainability.

- Department of Agriculture (DOA)
- Department of Environmental Protection (DEP)
- Department of Conservation and Natural Resources (DCNR)
- Department of Community and Economic Development (DCEd)
- Redevelopment Assistance Capital Program (RACP)
- Pennsylvania Department of Transportation (PennDOT)



<https://www.flagshipopportunityzone.com/why-invest-in-erie-pennsylvania-duplicate>



Opportunity Zone Development



There are no cookie cutter approaches to Zone Development

Four Main Activities

- Quantify
- Identify
- Promote
- Facilitate



www.FlagshipOpportunityZone.com

Opportunity Zone Development



Quantify

Main Goals

- Economically viable and socially impactful deals which may be eligible for/interested in Opportunity Zone investment

Availability of Local Capital

- Need local investment commitment to attract outside investment

Supportive Investment

- Transportation, Infrastructure, Private Real Estate Development



Opportunity Zone Development



Identify

Projects

- Specific eligible projects that are eligible for investment/development. Build database.

Local Investors

- Need to have standby Capital Gains

Funds

- Local / Regional Funds
- National Funds

Partner Investment

- Venture Capital
- CRIZ
- TIF
- LERTA
- NMTC
- Philanthropic



Opportunity Zone Development



Promote the Zone

Entrepreneurs/Existing Businesses/Developers

- Attract businesses and developments to your zone

Investors

- Healthy Deal Flow
- Realistic Return on Investment potential
- Social Impact



Opportunity Zone Development



Promote

- Entrepreneurial Scene, Deal Flow availability and commitment of Local Capital
- Specific Projects
- City/Zone Investment Prospectus
 - Make the Prospectus Dynamic (Enhanced)

Go to the Funds

- Road Show
- Conference speaking opportunities
- Present the Prospectus / Tell the Story



Opportunity Zone Development



Facilitate

Concierge Service

We recognize that entering a new market and conducting the necessary due diligence can be overwhelming.

We're prepared to assist you every step of the way.

The PA Flagship Opportunity Zone Corp. was developed to serve as your concierge. We can help:

- Identify deal flow;
- Identify local funds;
- Connect you with developers and investable business opportunities;
- Work with economic development organizations and professionals;
- And connect you with local investors, lenders, bankers, and service providers.






City of Erie Investment Prospectus

- Building Opportunity
- Restoring Hope
- Transforming Erie

<https://www.flagshipopportunityzone.com/>



Flagship Opportunity Zone/City of Erie Prospectus



ACCELERATOR FOR AMERICA







Zone / City Prospectus



First Impression of the Zone

Crystalize Four Matters

- Who/What your Zone is
 - The Good, Bad and the Ugly
- What investments have been made in your Zone
 - Supportive Investments
 - If we don't invest in ourselves, we cannot expect others to do so.
- What opportunities are in the Zone
 - Project Identification
- Why a fund should invest in the Zone
 - Promotion



Zone / City Prospectus



End Goals

1. Be prepared to quickly take advantage of Opportunity Fund Funding;
2. Identify and Capture Local/Regional Investors/Funds and Projects;
3. Market The Zone/Projects to Funds; and
4. Promote economically viable and socially impactful projects



Re-Cap



5 Steps to Opportunity Zone Development

1. Stakeholder Education
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4. Fund Development and Identification
5. Project Promotion

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Thank you!

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