

A city street scene at dusk or dawn, featuring several tall buildings. The most prominent building on the right has a large, illuminated sign on its roof that reads "WESTERN AUTO" in a circular arrangement. The sky is a mix of blue and orange, suggesting the time is either early morning or late evening. The street below is visible with some traffic and streetlights.

Opportunity Zones & Community Needs

how to successfully leverage opportunity zones for inclusive development



THE GOVERNANCE PROJECT

We help equip and empower communities taking practical steps to combat economic disparity by providing toolkits and technical assistance to support long-term transformative investments.

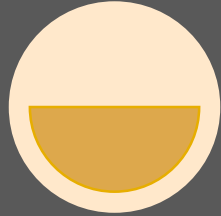
Thinking of Opportunity
Zone projects as
translating **between**
investors and
community leaders

Finding the OZ sweet spot

Getting there requires a more engaged local community

Three dimensions of OZ projects

Where does project fit within intersection of goals, resources, and needs?



Local resources leveraged: how much are you willing to put on the table, and for what outcomes?



Community needs addressed: how deeply or broadly does this project address prioritized community needs?



Suitable for private capital: where does this project fit within investors' risk preferences? What does the return look like?



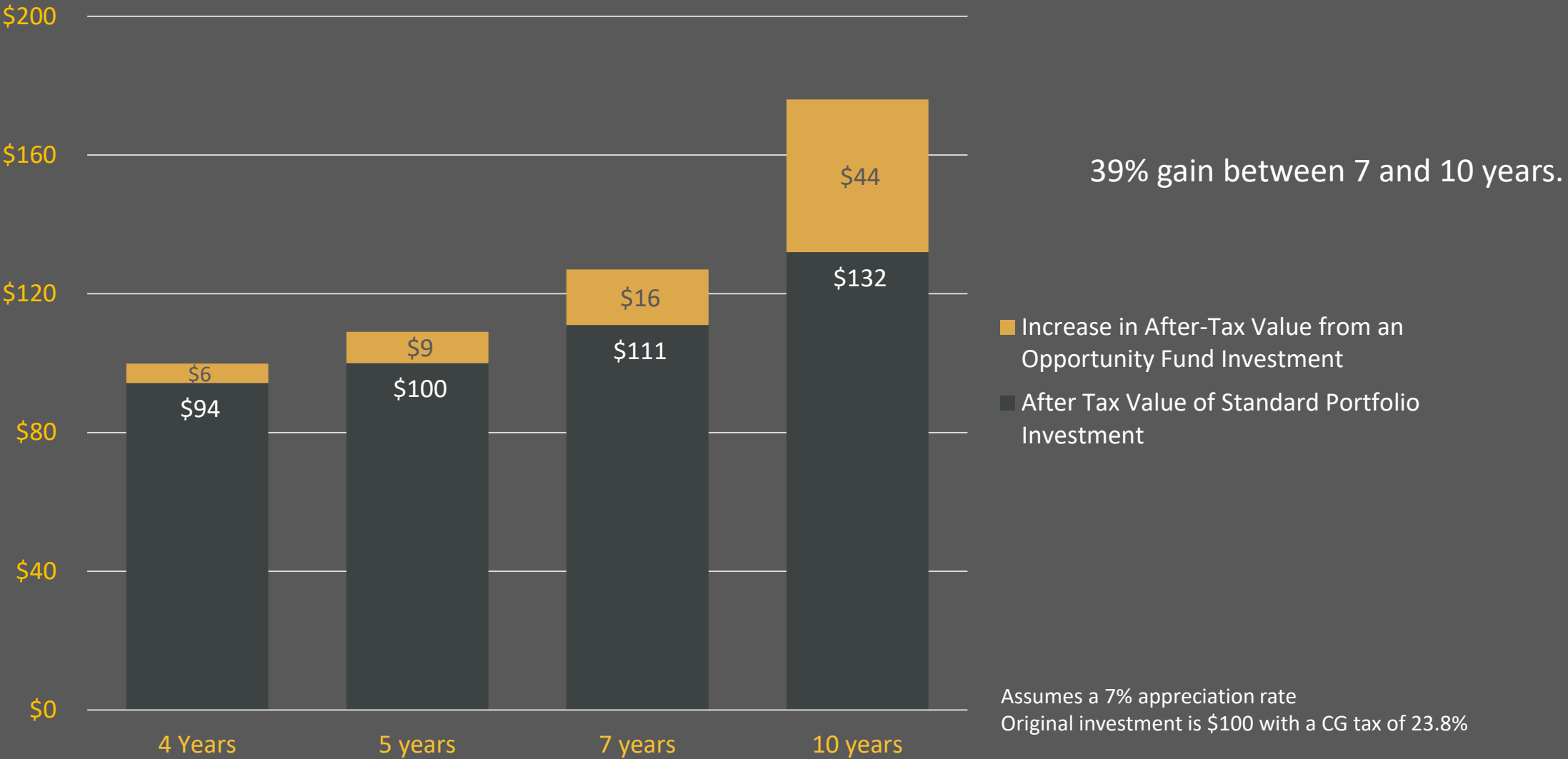
Good Types of OZ sweet spot projects for different investor audiences

Real Estate	Operating Business
Rental housing - workforce & affordable (all)	Fast growth startups seeking equity investors (national)
Business Incubators (all)	Growing small businesses (local investors seeking to keep gains local)
Clean Energy, if regs are clarified (all)	Businesses seeking series-B funding (all)
Manufacturing *infrastructure* (all, especially local investors)	
Student housing & university capital projects (all)	
Anchor-driven real estate projects (all)	

Notable exclusions: capital repairs on existing businesses, businesses seeking loans rather than equity, manufacturing businesses, condos - potential exception of rent-to-own, hotels & office space (unless really needed by community)

Reminder: step-up of OZ incentive over time

After tax value of a \$100 Standard Portfolio Investment and Increase with Opportunity Fund



How (Most) Investors think about OZs



Excellent tax incentives to invest, but still seeking risk-adjusted long term market-rate returns (12% - 15%)



Will attract long-term investments within portfolios, patient capital



Focus so far is project-by-project, since rules make multi-asset funds more onerous



For investors approaching new places, it's not always clear how to find viable projects



Business investment recently became more clear, but mostly seen as a real estate play

Highlights from recent regulation

Regulation of this program is complicated and still being finalized. We recommend talking to a tax attorney & an accountant for verification .

High level rules:

- ❖ Straightforward to self certify as a QOF, requires filling out 8996 form with tax return.
- ❖ Fund must invest 90% of its assets into Opportunity Zones. Once fund is designated investors have **180 days to invest**.
- ❖ Property invested in must have "substantial improvement" -- value of underlying property must double from point of purchase – at **30 month check-in after investment**. If building is acquired, land costs are ignored.
- ❖ **What this means:** there is potentially more capital looking to invest on an urgent timeframe, in projects that will increase in value, than there are projects ready to go.

Real Estate Investment rules: transfers

Property has to have been transferred or entered into a lease after December of 2017. Related party transfers and triple net leases are not eligible.

Operating Business Investment Rules: 50% gross income rule

Half of the property owned, services preformed, or employees of the business must be located in opportunity zones (can be across multiple zones).

Resources:

Novagradac LLC: <https://tinyurl.com/yxl2z4z6>

IRS: <https://tinyurl.com/yxzhmvyw>

Municipal Model to find the OZ sweet spot

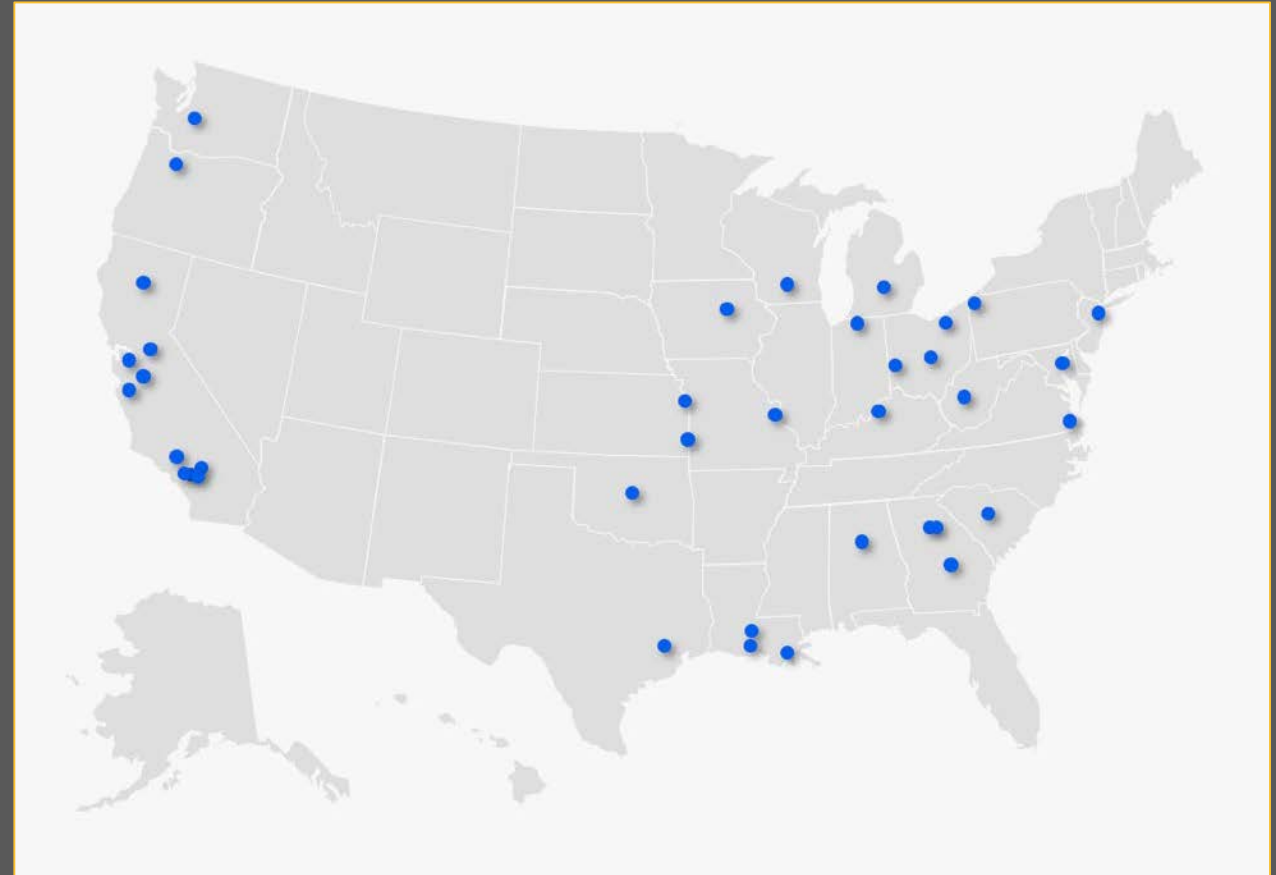
- 1 Orient Community around vision for the Zones - develop prospectus
- 2 Identify Zone-Specific Community Needs
- 3 Identify Community Resources that Can Be Leveraged
- 4 Prioritize Projects from the Intersection of Needs and Resources
- 5 Advance Priority Projects through project sponsor support & investor outreach strategy

I. Urban & Rural Prospectuses

It's a menu of local impactful projects more than a "typical" investment prospectus

A prospectus does 4 things

1. Establishes what's currently possible for a region/ city's Opportunity Zones
2. Allows community leaders to agree on a common vision for their Zone.
3. Tells a story that adds context to economic data.
4. Signals to investors that the community & project sponsors are serious about using Opportunity Zones



Current cities with public urban Investment Prospectuses produced with [Accelerator for America](#)

II. Model : Identifying Needs (South Bend, IN)

Acute Needs:

- Need to combat population loss
- Need to redevelop swaths of vacant and abandoned land

Chronic Needs:

- Need to develop post-industrial growth narrative
- Need to develop cradle to career strategy

Need for an entrepreneurial ecosystem



III. Review of Local Resource Categories

- ❖ **Anchor Institutions:** Higher education, hospitals, churches, natural resources, existing industry, etc.
- ❖ **Government- Controlled Assets:** City-owned land, buildings, or tax districts
- ❖ **Key Partnerships:** Non-profit/community groups, chambers of commerce, local champions, etc.
- ❖ **Human Capital:** Demographic trends, workforce strengths, etc.
- ❖ **Regulatory Resources:** Zoning codes, planning approval processes, additional incentives, etc.
- ❖ **Sources of Capital:** Investors, philanthropy, family offices, government funds, etc.
- ❖ **Success Stories:** Positive examples of transformative growth

Model Case: Leveraging Local Resources



(Erie, PA) Stakeholders Come Together

Form the Flagship Opportunity Zone in summer 2018 to serve as centralized point for deal flow



Engage Anchor Institutions

Find key local employers & engage them in prospectus building and project pipeline



City Agrees to Support

City supports efforts by convening & provides gap financing



Develop Project Pipeline

Have an interactive list of 13 projects (and growing) and guiding principles for pipeline development.



IV. Apply Internal Scorecard to Project

Example scorecard with key factors

Economic fundamentals



- Does the city control the key resources? (e.g., land, building, incubator)
- Is there strong community desire?
- Is it likely to appreciate over 10 years?
- Is there a clear exit from investment?
- Who is the project a strategic investment for?

Need-resource overlap



- Where in the planning process is this project? (conceptual vs. permitted)
- Has a project champion been identified?
- How does the investment story fit within the mission orientation of investors?
- How do these investments fit within the municipality's broader development strategy?
- Which community members benefit from the project? And which will pay the most?

Model Case: Birmingham's American Life

Building



Vacant landmark

The American Life Building's 36 year vacancy was a sign of the city's decline



PNC funds \$24 million redevelopment

The city engages PNC Bank with a nonprofit to provide mission-oriented development



140 workforce housing units

This includes 5 units set aside for a local nonprofit helping formerly incarcerated individuals re-enter society



Rural Case: Putnam Block, Bennington VT



Community members focus on town's future

20 lenders come together to redevelop block for town's survival (lost 2,000 people over last 10 years)



\$36 million redevelopment

Funded by a complex capital stack



Project *just* broke ground

Renovating the old Putnam Hotel and re-developing the surrounding block with mixed uses (~150,000 square feet)



Putnam Redevelopment Project - Capital Stack

<u>Source</u>	<u>Contribution</u>
BRG Leadership Equity to Date	\$2,350,000
Preferred Equity Pledged to Date	\$1,755,000
VT Community Development Block Grant	\$1,250,000
VT Housing & Conservation Board Grant	\$930,000
WRC & EPA Grants (Environmental Testing & Clean-up)	\$180,500
Efficiency Vermont	\$92,000
Federal Historic Tax Credits	\$3,235,000
VT Downtown Credits	\$1,186,000
New Markets Tax Credits	\$8,093,000
Senior Bank Loan	\$5,050,000
Junior Debt	\$1,500,000
Brownfields Revolving Loan Funds-WRC	\$430,000
Brownfields Grant-ACCD	\$150,000
<u>Town of Bennington Revolving Loan Fund</u>	<u>\$200,000</u>
TOTAL RAISED/PROJECTED TO DATE	\$26,401,500
TOTAL BUDGETED PROJECT COST	\$30,151,500
GAP NEEDED TO CLOSE	\$3,750,000

“Even if the project succeeds, none of us believe we’re going to make a significant return on our investment in the near future....We believe the project is necessary to change economic conditions downtown.”

- *Early project funder*

[QOF investment]

Examples of two different operating businesses

Second Chance Vertical Farms – Wilmington, DE: Founders are raising a \$2.5 million fund to purchase a 50,000 square foot warehouse for the business. Land will be purchased before October. The City council changed the zoning code to allow the farm to operate.

What the business does: the farm employs former state & federal inmates in urban vertical farm operation to help them become entrepreneurs and find employment after they get out of prison.

SHINE Medical – Janesville, WI: SHINE is raising \$30 million of Series C funding. The company was founded in 2010 has grown to more than 100 employees since then. It's in the process of building a medical isotope production facility at its 91-acre headquarters site, which is to begin production in 2021 and commercial sales in 2022. They are using the incentive to double their raise (from the initial \$15 million to \$30 million)

What the business does: they manufacture medical tracing isotopes and cancer detection techniques.



V. Identify your project sponsor

This is the person or partnership that will manage and develop the tangible property in the zone

What makes a good Project Sponsor	Steps to identify
Are they, or do they work closely with, a locally trusted developer?	Make a list of developers who have worked on transformative local projects in the past
Are they, or do they work closely with, an entrepreneur with a good track record of success?	What are the local success stories of business creation? Make a list of the people behind them.
Are they a community group that understands community needs as well as economic fundamentals?	Make a list of the groups that are traditionally involved in community development. Are they active in Opportunity Zones?
Do they have a desire to manage a project in an Opportunity Zone?	Reach out to any of these groups and see if they've thought about projects in zones.
Are they willing to work with the city to identify creative ways to address public problems?	For any property you own in zones, go through the RFP process. Otherwise work with project sponsor to facilitate & promote project-generation at need-asset overlap.
Did they approach you? Or do need to approach them?	If you need to approach, consider having an OZ convening zone-by-zone



V. Identify your local investor strategy

Depending on who the project sponsor is, they might have their own investor strategy. So far, local capital has been the key for transformative OZ projects



Local individuals with capital gains:

These are regionally-based individuals who just sold a business or a piece of property and have a smaller amount of capital gains that they would rather invest in the local economy than pay federal taxes on.



Institutions and Individuals with a regional philanthropic interest:

These institutions and individuals care about the future of the region and may be interested in supporting projects through donations, grants, or low-return capital that create a meaningful investment aligned with their vision.



Opportunity Fund Managers:

These are the **national, local, and regional actors** with market-rate and socially impact-oriented capital that they're seeking to responsibly invest in Opportunity Zones.



Opportunity Zones can be
a **hook** to begin
conversations with critical
stakeholders



Michigan Specific Support to Help



Online platform:
MIOZ



MI Place
Programs
(national model)



Redevelopment
Ready
Communities



Existing
successes



THANK YOU
questions and comments welcome

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