

Virginia Opportunity Zones

Agenda

- What is the Opportunity Zone Program?
- What do we know and where does the program currently stand?
- State Role
- Strategies for Local Governments
- Additional Information
- Q&A

Participants for Today's Webinar

- Will Lambe, Director of Capital Solutions, Enterprise
- Kristen Dahlman, Senior Policy Analyst, DHCD



Enterprise Community Partners

Who we are: Proven nonprofit improving people's lives by strengthening communities. We bring together nationwide know-how, partners, policy leadership and investment.

Impact-driven investment platform: 30-years of experience investing in distressed neighborhoods throughout the nation to finance multifamily housing, commercial and industrial/manufacturing centers, and health care facilities.

Deploy \$8 billion annually:

- Fund manager for a family of conventional private equity funds to preserve multifamily housing - \$220 million invested
- Community Development Financial Institution - \$1.7 billion invested
- Low-Income Housing Tax Credit syndicator for over 250 funds - \$12.8 billion invested
- New Markets Tax Credits allocate - \$960 million in allocations, aggregated \$902 million of equity
- Mortgage Financier - \$6 billion annually

Enterprise Community Partners

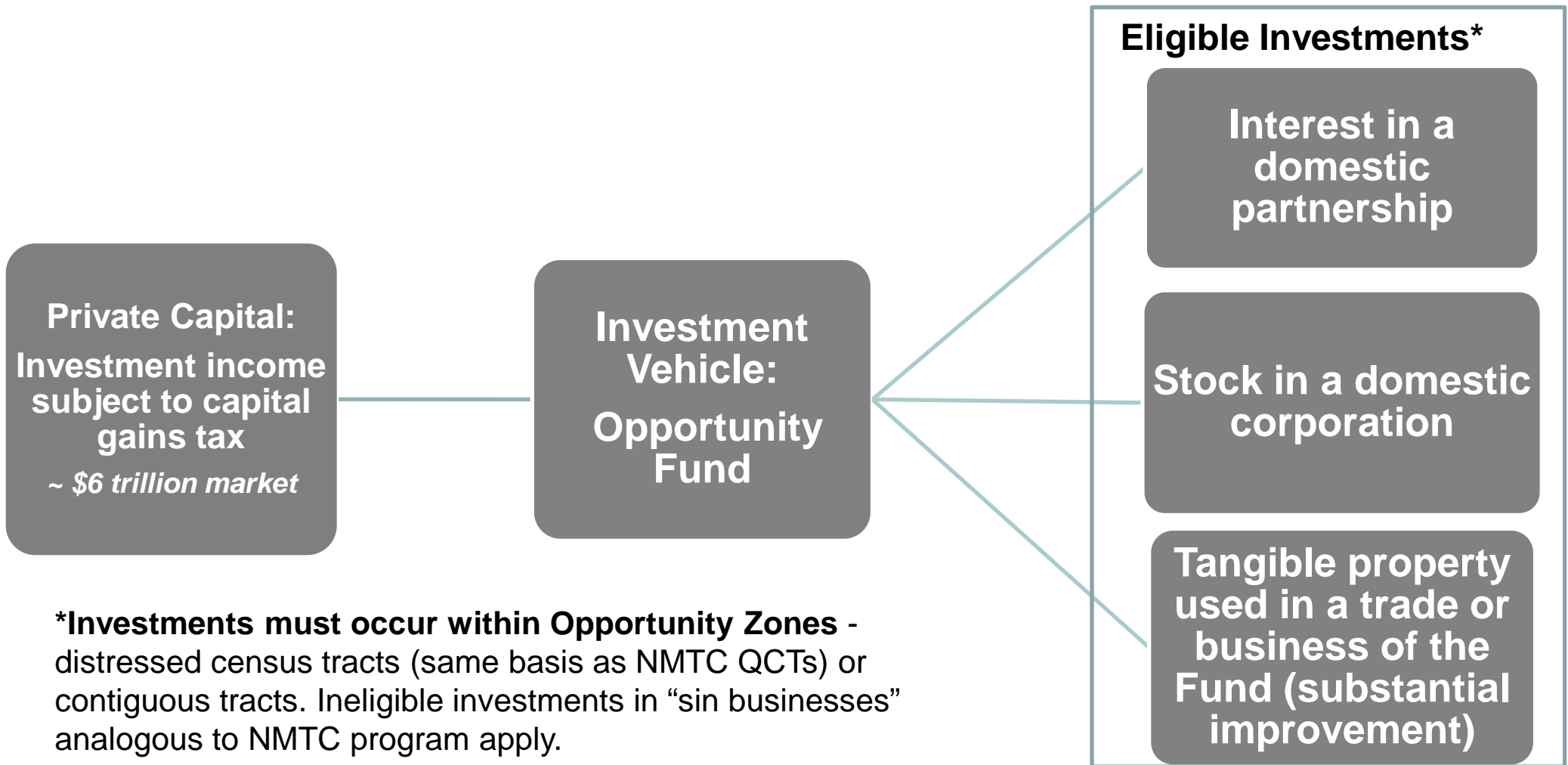
“Early Mover” on Opportunity Zones:

- Early supporter of the Investing in Opportunity Act
- Aligned with key stakeholders on implementation at national and local levels
 - Congressional testimony to Joint Economic Committee (May 2018)
- National resource - state mapping tool, policy guide, free webinars, etc.
- Local expertise - technical assistance presence, existing relationships, and measurable impact in 27% of Opportunity Zones nationwide
- Opportunity Funds - Leveraging our impact-driven investment platform

Opportunity Zones Background

- **Enacted in tax reform (Tax Cuts and Jobs Act)**
 - Investing in Opportunity Act, bipartisan support (114th, 115th Congress)
- **Tax benefits** to encourage individuals and corporations to invest in distressed communities – Opportunity Zones
 - IRS will oversee, not a tax program
 - No reporting requirements, state oversight, or investment mandates
- **Opportunity Fund** vehicle could reduce transactional friction and connect investors to overlooked but credit-worthy investment opportunities
- **Equity investments in growth-stage businesses and real estate**
 - Intent was to spur economic growth and job creation

Overview of Structure



Tax Benefits for Investors

- **Individual and corporate taxpayers can reinvest an unlimited amount of gains into an Opportunity Fund within 180 days**
- **Alternative to paying capital gains tax**
- **Benefits when original gain is rolled into Opportunity Fund:**
 - Temporary tax deferral
 - Recognized at exit or 12/31/2026 - whichever comes first
 - Step-up in basis
 - 5-year minimum = 10% reduction in tax liability of original gain
 - 7-year minimum = 15% reduction in tax liability of original gain
- **Benefit on new gain earned on Opportunity Fund investment:**
 - Permanently excluded from taxable income
 - 10-year minimum

Tax Benefits for Investors - Deferral

- **Temporarily defer an unlimited amount of capital gains realized from the sale or exchange of any property with an unrelated party**
 - Does not need to be like-kind
 - Reinvest all or just a portion of capital gains
- **December 31, 2026**
 - Pay taxes on original gain when you either exit the Opportunity Fund or on 12/31/2026
 - Deadline for investing into an Opportunity Fund is 12/31/2026
- If a taxpayer's investment in an Opportunity Fund decreases in value during the deferral period, the amount of gain a taxpayer is required to recognize decreases proportionately
- **Example:** Sell property/stock with a tax basis of \$200,000 for \$1 million, \$800,000 of capital gain can be deferred if reinvested in an Opportunity Fund.

Tax Benefits for Investors – Reduction in Tax Liability

Additional benefits on original and new gains meant to incent long-term investments

- Original Gain = Deferral (OG) + Reduction in Tax Liability (OG)
- **Year 5:** 10% of deferred gain permanently eliminated
 - \$800,000 of capital gain invested; \$720,000 of deferred gain is taxable
- **Year 7:** 15% of deferred gain permanently eliminated
 - \$800,000 of capital gain invested; \$680,000 of deferred gain is taxable

Tax Benefits for Investors – Full Tax Exemption

Additional benefits on original and new gains meant to incent long-term investments

- $\text{New Gain} = \text{Deferral (OG)} + \text{Reduction in Tax Liability (OG)} + \text{Full Exemption on New Gain}$
- **10 Year Scenario**
 - 2019: (deferral)
 - \$800,000 of capital gain invested in Opportunity Fund
 - 2026: (Year 7 benefit)
 - \$680,000 of deferred original gain taxable; recognize original gain
 - 2029: (Year 10 benefit)
 - Sold investment in Opportunity Fund for \$1 million; no gain taxed on the sale since investor recognized original gain in 2026.
- **Effectively excludes any tax on appreciation arising during the investment in the Opportunity Fund**

Opportunity Funds

New investment vehicle to aggregate and deploy investments

- **Flexible structure**
 - Private or Public fund manager
 - Wide range: national, multi-asset fund or single-asset fund
- **90 percent of assets invested** in Qualified Opportunity Zone Property located in Opportunity Zones
- **Self-certification**; do not need approval from IRS before operating
- **Deployment test** determined by the average of the percentage of qualified opportunity zone property held in the fund as measured:
 - on the last day of the first six month period of the taxable year of the fund;
 - on the last day of the taxable year of the fund
- **Co-mingled funds allowed, but only gains eligible for benefit**

Opportunity Zone Property

- **Investments eligible to be held by Opportunity Funds**
 - acquired after 12/31/2017
- **Equity investments in business and real estate**
- **Stock, Partnership Interests, Business Property**
- **Qualified Opportunity Zone Business**
 - at least 50 percent of the total gross income of such entity is derived from the active conduct of such business
 - a substantial portion of the intangible property of such entity is used in the active conduct of any such business
 - less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property
 - not a “sin business”

Opportunity Zone Property

- **Qualified Opportunity Zone Stock or Partnership Interests**
 - must be a qualified opportunity zone business or (for newly formed organizations) have been organized for the purpose of being a qualified opportunity zone business
 - remain a qualified opportunity zone business for substantially all of the qualified opportunity fund's holding period

- **Qualified Opportunity Zone Business Property**
 - tangible property used in a trade or business
 - original use of such property commences with the qualified opportunity fund or the qualified opportunity fund must substantially improve such property
 - Substantial improvement test
 - during any 30-month period after acquisition additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such 30-month period

Opportunity Zones Implementation (as of 9/2018)

- **Opportunity Zones:** all approved as of 6/15/2018
- **Guidance on Opportunity Funds:**
 - [IRS published FAQs](#) (April and June 2018)
 - Additional FAQs anticipated ~ Labor Day
- **Creation of / Investment in Opportunity Funds:**
 - Already happening
- **Guidance and Clarity Needed**
 - Advocacy on key consensus issues (examples)
 - Clarity on certain definitions and terms
 - Revolving nature of funds
 - Time constraints

Keeping Opportunity Zone Investments Local

Local leadership can create an ecosystem that encourages investment. Examples of how cities and states are thinking about this:

Inform the marketplace

- Online Portal - Make data available, inventory local assets
- Site Tours and Education - Convene investors, developers, businesses, philanthropy, community stakeholders, etc.
- Letters of Interest - Investors and Fund Managers

Incent certain types of activity

- Leverage add-on incentives, gap financing, risk mitigation
- Create public funds, could be through partnership with local financial intermediaries to facilitate deal flow, asset manage, etc.
- Pairing investments with other sources of financing (HOME, CDBG, etc.)
- Ease certain development requirements

Rivermont Enterprise Emergent Communities Fund

Spurring sustainable, diverse and dynamic economic growth by revitalizing emerging main streets and supporting local entrepreneurs.

- **Rivermont Capital** is an experienced master developer and investor in the regions where the Fund will focus, enabling them to identify exceptional opportunities and address local needs
- **Enterprise Community Investment** is an expert at investing in revitalizing communities over more than 35 years – of \$36+ billion total invested, they have invested \$4.4 billion in Opportunity Zones
- **Beekman Advisors** is a skilled fund manager, particularly at strategic valuation, and principals have invested in emerging markets

Investment Proposition

- \$500MM potential project pipeline in areas normally inaccessible to most investors
- Data-driven, master development approach to downtown redevelopment in smaller cities
- Extensive experience in creating public/private partnerships
- Low-cost market entry
- Tax-enhanced returns to investors

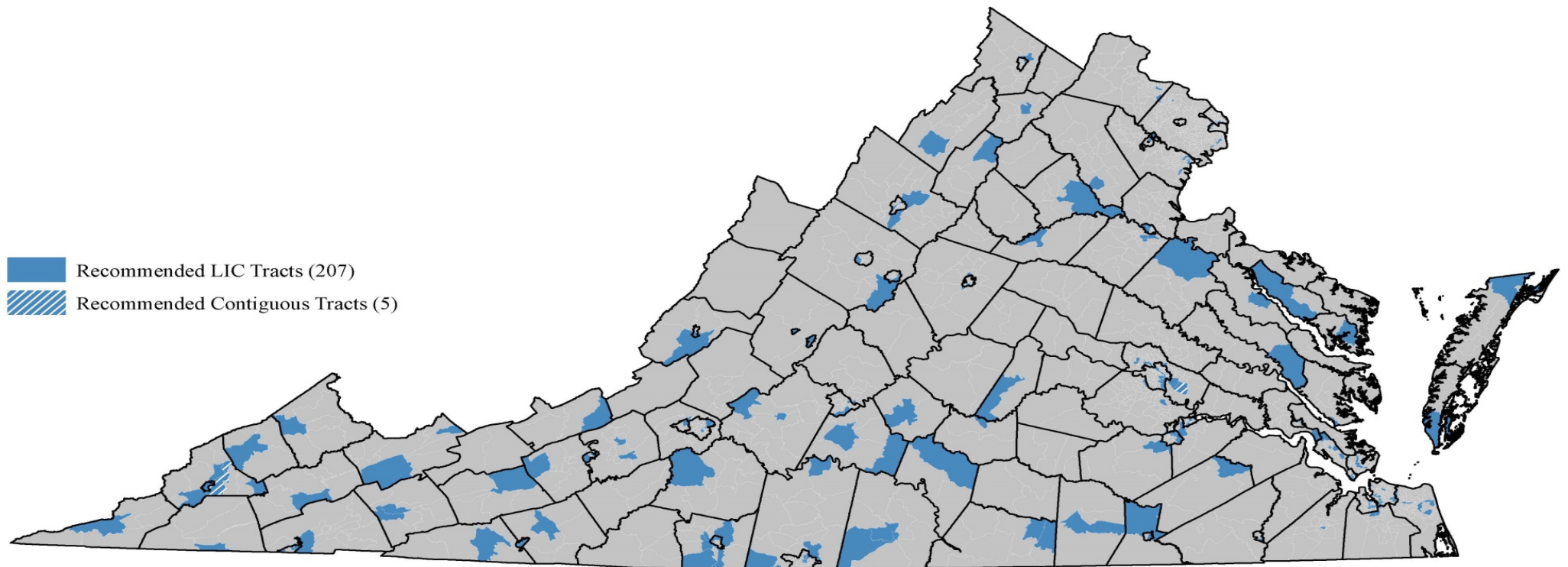
Virginia OZs

- The State's role in the program was to nominate low income census tracts to be designated as Opportunity Zones
- Virginia nominated 212 out of 901 low income census tracts for OZ designation
- Approved & Certified by U.S. Treasury in May
- This represents the maximum number of low income census tracts that could be nominated in Virginia

Virginia OZs

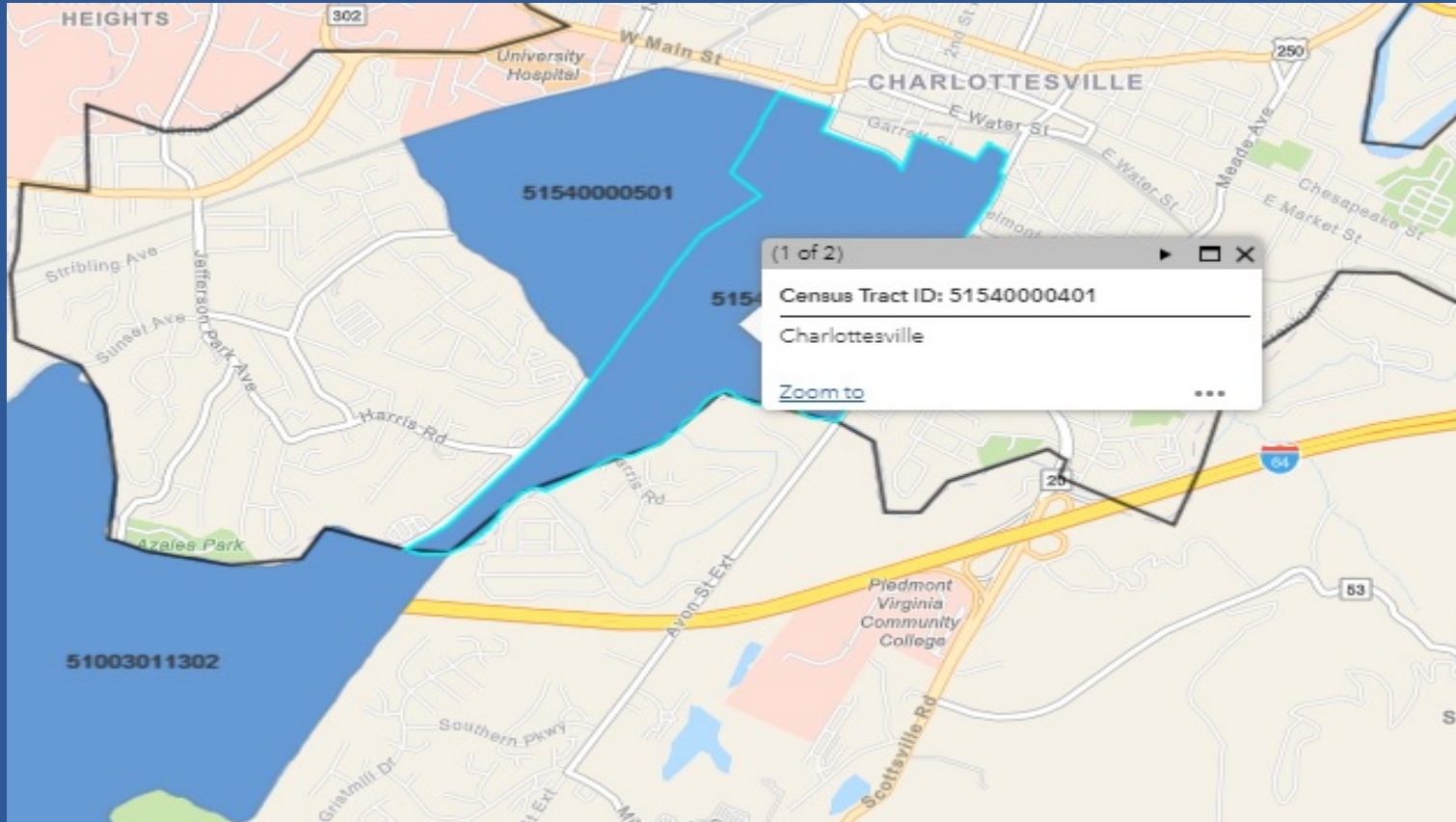
- Virginia's nominations were data-driven and were based on local priorities
- The Governor considered factors such as Enterprise Zones, proximity to a major highway, access to incubators and accelerators, near a university or research institution, and a locality's fiscal stress

Virginia Qualified Opportunity Zones



Virginia Qualified Opportunity Zones

Current State Initiatives



Opportunity Zones

- Another tool in toolbox for investment and revitalization in your community
- Equity investments in growth-stage businesses and real property

Uses for Possible Investments

- Opportunity Zones can be used for a variety of uses
 - Real estate
 - Commercial revitalization
 - Mixed use
 - Housing
 - Start ups
 - Expansion of existing business in an OZ or large expansion of a business locating in an OZ
 - Energy Infrastructure

Strategies and Tips for Local Governments

- Identify target businesses and properties
- Create a marketing prospectus for investors
 - Provide market data and information
 - Workforce data, demographics, etc
 - Existing properties
 - Pipeline of potential projects
 - Highlight investable deals
 - Tell your local story

Strategies and Tips for Local Governments

- Identify and meet with potential investors
 - High net worth individuals, Community foundations
- Have an Opportunity Zone Day
 - Tour of potential projects
- Identify other incentives to layer on projects that are in OZs

Strategies and Tips for Local Governments

- Update capital improvement Plan, Zoning ordinances, etc
 - Direct resources to priority projects
 - Zoning
 - Inclusionary zoning to prevent negative effects of gentrification
- Get engaged with your community and engage investors with the community

Other Considerations

- Our understanding is that Virginia State capital gains tax liability is based on your federal capital gains liability
- Many OZs overlap with Enterprise Zones
- Look at targeted local incentives

Sample Project

- Investor sells stock of \$1 million for 2 million
- Invests 1 million in a Qualified Opportunity Zone Fund in 2019
 - Within 6 months starts investing in a new business in an Qualified Opportunity Zone
- Within five years, receives step up in basis (90%) of taxes owed. Within seven years receive another step up in basis (85%). Keeps money in fund.
- Deferral period: End on December 31, 2026 or earlier sale

Sample Project

- Investor keeps money in fund for ten years. The Qualified Opportunity Zone Business does well and the investor receives additional gains. These gains are completely tax free. The investor must still pay taxes on the original gain.
- Notes: An investor's tax basis is deemed to be at zero at the start. Investments can be tangible and intangible property. Investors must invest at least 90% of their gains in the QOZ business

Additional Resources

- **DHCD OZ Page DHCD- [Opportunity Zones](#)**
 - Kristen Dahlman - kristen.dahlman@dhcd.virginia.gov
- **Enterprise Community Partners - [Opportunity Zones Information Page](#)**
 - Will Lambe - Wlambe@enterprisecommunity.com
- **CDFI Fund, Treasury - [Opportunity Zones Resource Page](#)**
- **Economic Innovation Group - [Opportunity Zones Landing Page](#)**
- **Council of Development Finance Agencies – [Resource Page](#)**