The Origins of OZs

- The original legislation that created OZs, the “Investing in Opportunity Act,” was sponsored by Sens. Tim Scott (R-SC), Cory Booker (D-NJ), & Rep. Pat Tiberi (R-OH).

- Significant bipartisan support, but a “streamlined” version of the legislation was included in the TCJA.

- Reporting requirements and the mechanism for data collection among the casualties of Congressional procedure (budget reconciliation).
What and Where are the OZs?

- OZs are low-income census tracts that offer investors tax benefits in return for investing their capital gains into OZ property.

- Immediately following the passage of TCJA, state governors had 90 days to select their OZs. Each state was eligible to designate 25 percent of their eligible census tracts as OZs.

- The U.S. Treasury certified each state’s selection, which are now fixed for the duration of the tax incentive. The OZ incentive expires December 31, 2026.
  - There are more than 8,700 qualified OZs across the country.
Opportunity Zones
CDFA Members + Opportunity Zones
A Few Interesting OZ Notes…

- There is an estimated $6 trillion in unrealized capital gains in the marketplace.
- Approximately 35 million people live in Opportunity Zones.
- 294 Zones are tribal lands.
- 56% of those residents are minorities.
- 76% are in metropolitan areas.
What are Opportunity Funds?

- A Qualified Opportunity Fund (QOF) is the mechanism through which investments are made into OZs. QOF investments MUST be equity.
  
  **NOTE:** To receive the OZ tax benefit, capital gains must be invested directly into a QOF.

- A QOF is any investment vehicle, organized as either a partnership or corporation, that invests in OZs.

- At least 90 percent of a QOF’s assets must be held in an OZ as measured:
  - On the last day of the first 6 month period of the taxable year of the fund, and
  - On the last day of the taxable year of the fund.
A Deeper Look into QOFs

- A Qualified Opportunity Fund (QOF) is:
  - Either a corporation or partnership
  - Must hold at least 90% of its assets in Qualified Opportunity Zone Property
  - Must substantially improve (100% of adjusted basis) property

- Qualified Opportunity Zone Property is:
  - Opportunity Zone Stock
  - Opportunity Zone Partnership Interest
  - Opportunity Zone Business Property

- Qualified Opportunity Zone Business Property is:
  - Tangible property used in a trade or business
  - Must be acquired by QOZ after December 31, 2017
  - Original use of the property must commence with QOF, or the QOF substantially improves the property (see above)
What are the Benefits to Investors?

- Capital gains reinvested in a **Qualified Opportunity Fund (QOF)** within 180 days from date of sale or exchange creating the gains are eligible for the following:
  - 100% deferral on taxable gain until earlier of sale of investment in QOF or December 31, 2026.
  - 10% reduction of capital gain invested in QOF if held for at least 5 years.
  - 15% reduction of capital gain invested in QOF if held for at least 7 years.
  - 100% reduction of capital gain from QOF investment if held for at least 10 years.
How can you maximize OZs in your community?
What Can My Community Do?

OZs are a market-based incentive, and there is no guarantee that QOFs will invest in your project.

- LISC and CDFA have collaborated to create a playbook for communities to follow.
- Six actionable steps to help communities envision, design, and implement beneficial OZ projects.
- The playbook is geared for leaders of local CDCs, CDFIs, DFAs, and other organizations that work on economic development and revitalization in communities.
What Can My Community Do?

- **Step 1:** Hold a Stakeholder Meeting
- **Step 2:** Embarking on a Plan for Work in OZs
- **Step 3:** Develop Incentives and Guardrails in OZs
- **Step 4:** Collaborate to Build a Project Pipeline and Leverage Expertise
- **Step 5:** Ramp Up Your Investor Marketing
- **Step 6:** Develop Impact Metrics and Encourage Transparency
Local OZ Consortiums

Encouraging investment in Indiana communities

Opportunity Investment Consortium of Indiana
State of Indiana, LISC, Cinnaire, Indy Chamber, Indiana Bond Bank, Indiana Economic Development Corporation, Office of Community and Rural Affairs, Indiana Housing Authority, Prosperity Indiana, Vectren Foundation, Indiana Economic Development Association
Local OZ Consortiums

Opportunity CLE
City of Cleveland, Cuyahoga County Department of Development, Cuyahoga Land Bank, Greater Cleveland Partnership, Cleveland Development Advisors, Fund for Our Economic Future
What Can My Community Do?

- **Step 1:** Hold a Stakeholder Meeting
- **Step 2:** Embarking on a Plan for Work in OZs
- **Step 3:** Develop Incentives and Guardrails in OZs
- **Step 4:** Collaborate to Build a Project Pipeline and Leverage Expertise
- **Step 5:** Ramp Up Your Investor Marketing
- **Step 6:** Develop Impact Metrics and Encourage Transparency
Local OZ Prospectus

City of Erie, PA Investment Prospectus
- Highlights the location of Erie OZs, and their location in relation to various development districts, and federal designations.
- Provides a list of major Erie, PA anchor institutions, as well as an outline of major Erie assets.
- Detailed information on city, county, and state finance tools, in addition to Erie's long-term economic development strategy.

Accelerator for America
- Non-profit 501(c)3 organization aiming to provide support for local economic development best practices.
- Produced various investment prospectuses for communities like South Bend, IN; Stockton, CA; Louisville, KY; and Oklahoma City, OK.
What Can My Community Do?

- **Step 1**: Hold a Stakeholder Meeting
- **Step 2**: Embarking on a Plan for Work in OZs
- **Step 3**: Develop Incentives and Guardrails in OZs
- **Step 4**: Collaborate to Build a Project Pipeline and Leverage Expertise
- **Step 5**: Ramp Up Your Investor Marketing
- **Step 6**: Develop Impact Metrics and Encourage Transparency
State Engagement with OZs

Opportunity Alabama
- Non-profit designed to serve as intermediary between projects and investors.
- Educates general public on how the incentive works.
- Tracks investment/project data from qualified OZ projects.

State of Maryland
- Governor Hogan proposes $56.5M to support economic development and business creation in OZs.
- $3M for workforce development, $20M for affordable housing, and $8M for small business development.
Federal Engagement with OZs

- An executive order established the White House Opportunity and Revitalization Council.
- Chaired by HUD, members include leaders of various federal agencies with economic development focus.
- Coordinates federal investments and programs on urban and economically distressed communities, including qualified opportunity zones.
- Enables interagency action to help OZ stakeholders develop strategies for economic growth and revitalization.
Federal Engagement with OZs

EDA Prioritizes Applications for Projects Located in Opportunity Zones

Today, U.S. Assistant Secretary of Commerce for Economic Development Dr. John C. Fleming announced that EDA has added Opportunity Zones as an Investment Priority. This new Investment Priority will significantly increase the number of catalytic Opportunity Zone-related projects that EDA can fund to spur greater public investment in these areas.

“Opportunity Zones were created under President Trump’s 2017 Tax Cuts and Jobs Act to stimulate economic development and job creation by incentivizing long-term investments in low-income and underserved neighborhoods across the country,” said Dr. Fleming. “By making Opportunity Zones an EDA investment priority, we are better able to align our work to advance this important Trump Administration priority.”

EDA’s investment priorities guide the agency’s investment portfolio to ensure its investments make the strongest impact on sustainable regional economic growth and diversification.

Through its competitive grant process, EDA evaluates all project applications to determine the extent to which they:

- Align with EDA’s investment priorities,
- Effectively address the creation and/or retention of high-quality jobs,
- Document that the applicant can or will leverage other resources, both public and private,
- Demonstrate the applicant’s capacity to commence the proposed project promptly, to use funds quickly and effectively,
- Provide a clear scope of work that includes a description of specific, measureable project outputs.
Opportunity Zones

Overview

Created as part of the Tax Cuts and Jobs Act, Opportunity Zones are a federal economic development tool aiming to improve the outcomes of distressed communities around the country. Opportunity Zones are low-income census tracts that offer tax incentives to groups who invest and hold their capital gains in Zone assets or property. By investing in Opportunity Zones, investors stand to gain a temporary deferral on their capital gains taxes if they hold their investments for at least 5 years, and a permanent exclusion from a tax on capital gains from the Opportunity Zones investments if the investments are held for 10 years.

Learn more about Opportunity Zones

Want regular updates on Opportunity Zones? Subscribe to CDFA’s Opportunity Zones Update newsletter.

Subscribe

- How Opportunity Zones Work
- Rules and Regulations
- Official Treasury Designations
- Opportunity Zones Resources
- Headlines
Advancing Development Finance
Knowledge, Networks & Innovation

Join CDFA Today!

- Discounted Registration Rates for CDFA Trainings & National Summit
- Reduced Rates for Publications in the CDFA Bookstore & Special Offers from Industry Partners
- Exclusive Access to the CDFA Online Resource Database and Federal Financing Clearinghouse
- Free Job and RFP Postings

www.cdfa.net
@cdfa_update