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Opportunity Zones Overview

Discussion Slides
EDA Denver Conference
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OZ Toplines

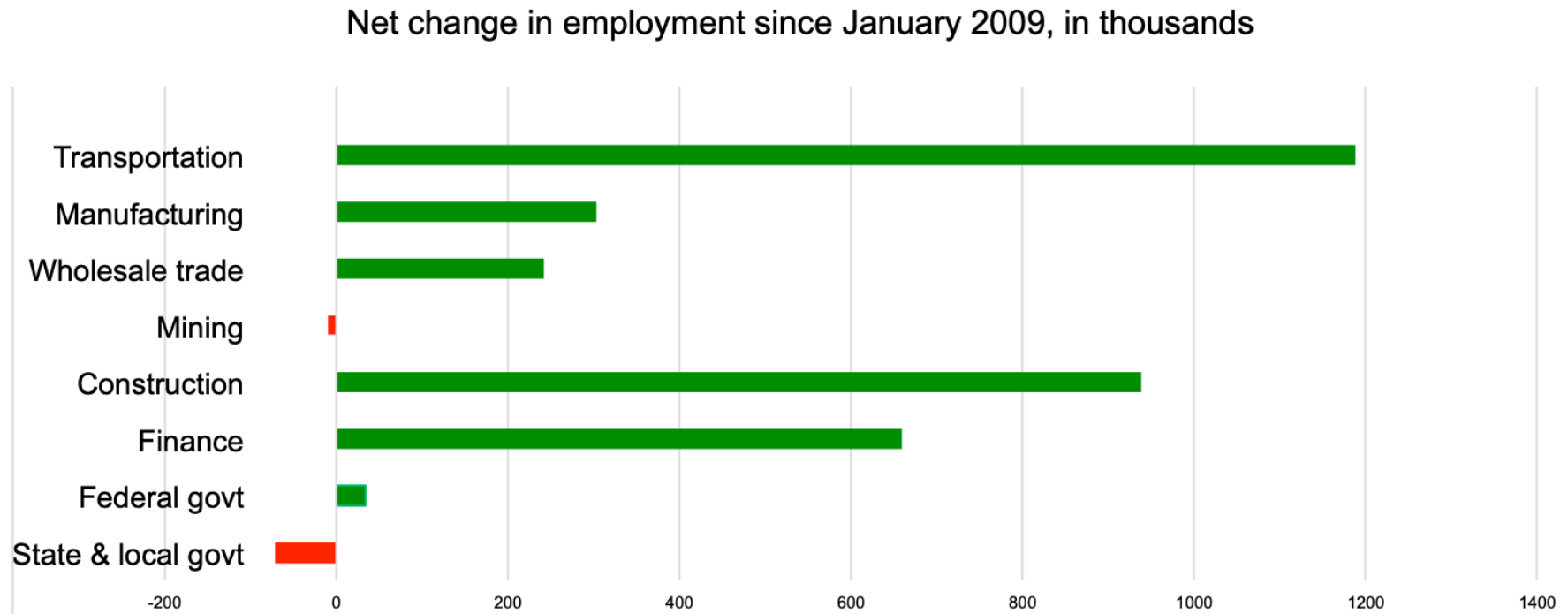
- Opportunity Zones is a new tax incentive-driven initiative -- NOT a program – designed to encourage eligible investors to invest in 8700 US census tracts.
- Investor rules have been written –but continue to evolve - and OZ funds are now forming and OZ deals are happening across the country. \$51 billion of potential QOF capacity has been announced to date.
- Jury is out: OZs *could* move \$100 billion in new investment *annually* into distressed communities and/or drive unwanted investment, gentrification and displacement. Communities will largely decide!
- Public sector success using the OZ tool will demand *early* engagement given OZ timelines and innovative best practices -- including creative partnerships with investors, local citizens and key local constituencies.



I. OZs in Context

State and Local Fiscal Stress

A Not So Fun fact: "State and local government" is by far the largest economic sector that has never recovered from the 2008 economic crash -- down 71,000 employees since January 2009. That means innovation capital is harder to find.



Sources: BLS, Milken Institute Analysis

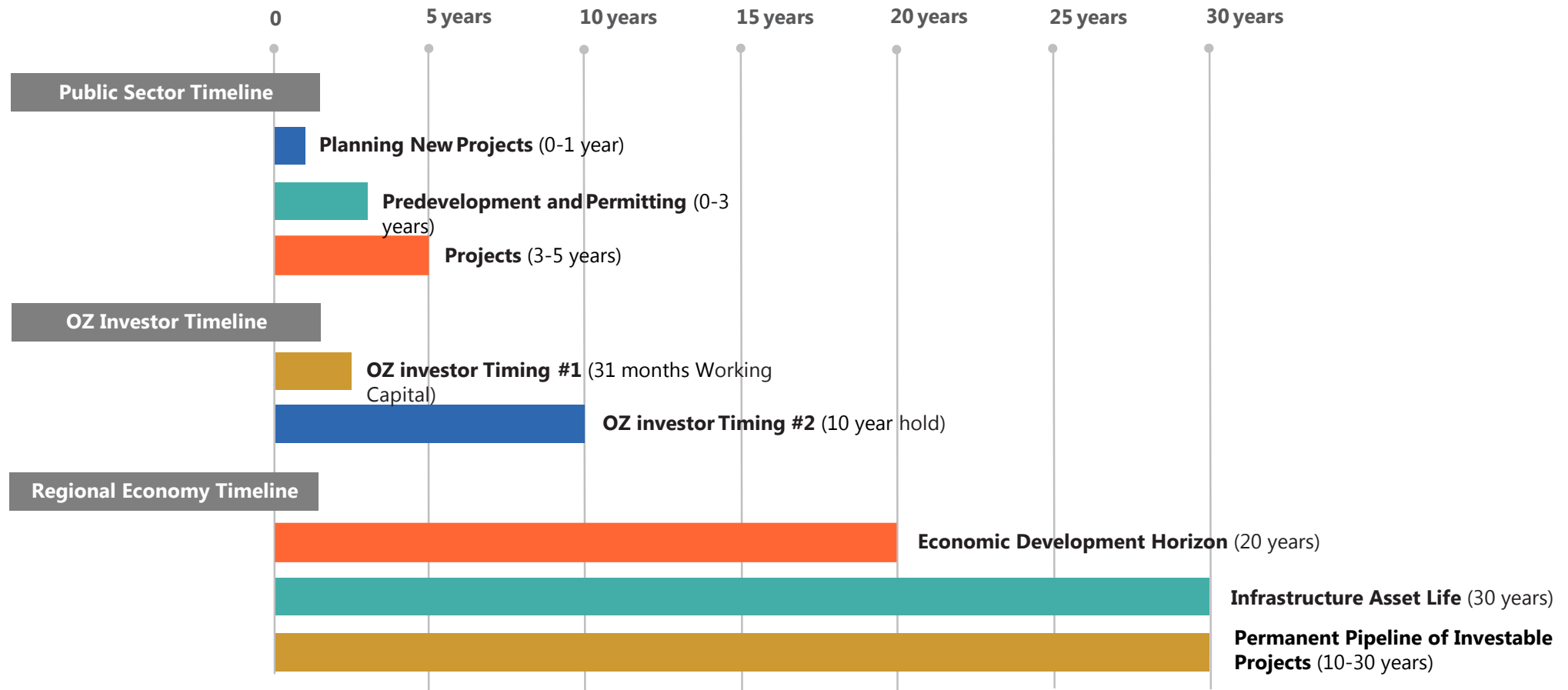


What That Means On The Ground...

- Place-based economic development grant programs at the federal, state and local levels are under a decade or more of fiscal pressure.
- Local economic development systems need a new capital sources because grant programs alone won't get us to scale in the next 20-30 years and overcome multi-billion dollar funding gaps for economic development, housing, infrastructure and other rural and urban community needs.
- Can OZs be the catalyst to building economic resilience through innovative and community-led partnerships?

II. OZ Deals: Quick Overview

Remember: Investor Timeline Alignment Is Key





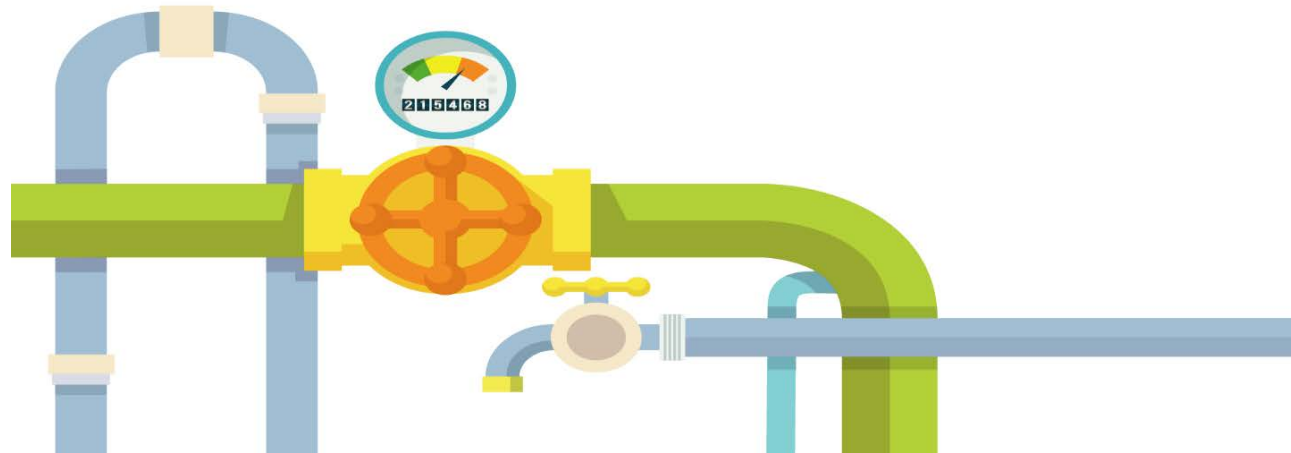
What Investors Are Looking For...

- Investment certainty
 - Permit delays, regulations, no headline risk.
- Acceptable rate of return
 - That rate depends on the type of investor and the type of deal.
- An EXIT.
 - Investors want to know how they get their money back, and when.

A PARADIGM CHANGE IN ECONOMIC DEVELOPMENT?

“We used to look for communities offering us a tax break. With OZs, we don’t need that. What we need a community that has the infrastructure, community partnerships and talent base in place, or a plan to get that done in the next few years.”

—Investor



III. Community Readiness: Research Findings



Good News...

- The market for OZ deals is just starting and there is time for communities to engage OZ capital effectively.
- Research indicates (McKinsey, Beeck Center/Georgetown, elsewhere) that the same set of fiscal, permitting and community engagement reforms that many communities need to build a more resilient and equitable local economy will concurrently accelerate the development of a stronger pipeline of investable and shovel-ready Opportunity Zone projects.
- This section identifies emerging best practices for your community to become OZ Ready.

Opportunity Zone Projects: The Market Is Just Starting



Integrated Real Estate. Workforce Housing coupled with the Dannon Project, a nonprofit that helps reintegrate workforce after prison (AL). Arts Center funded by a foundation linked to a hotel deal (CA).

Birmingham, Alabama and Oakland, Calif.



Alumni capital comes home: The Square Expansion in St Louis. Fin-tech innovator Square has signed a 15-year lease for space in a building that until recently housed the city's last daily newspaper. Square's current St. Louis workforce of 500 will grow to 1,400 to anchor the STL Gigabyte Corridor.

St. Louis, Missouri



Erie Jobs and Innovation District. Free public Wi-Fi plus new \$10 million venture capital fund focused solely on identifying, funding, and recruiting industry-specific startups to the Erie community. Initial seed money provided by a grant from the Erie Community Foundation.

Erie, Pennsylvania



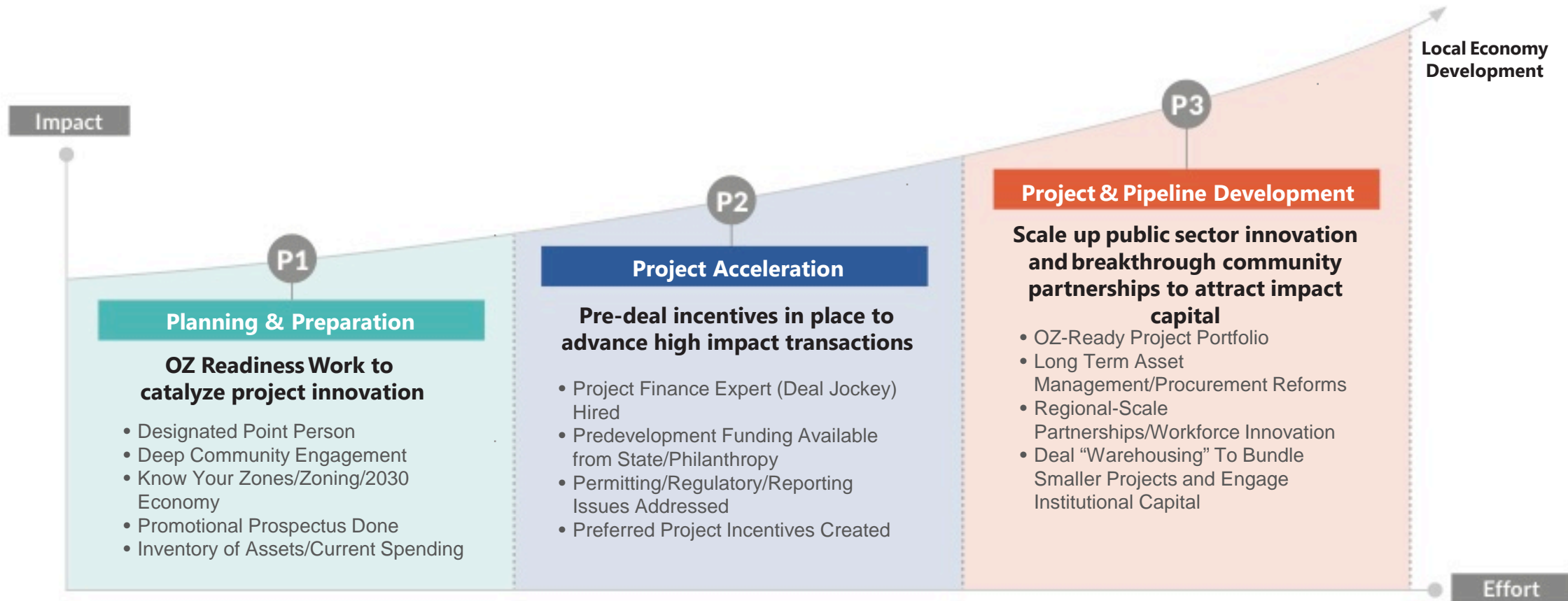
III. How Can Communities Get OZ Ready?

Sharing Our Latest Research On:

- What Other States and Cities Are Doing and their Approaches to Economic Development and OZ Integration.
- Suggested Guideposts to Get Your Community Ready for OZ Investment.
- The Importance of Building A Permanent Pipeline of Investable Projects: *The OZ Acceleration Curve*.

The OZ Acceleration Curve:

innovation at scale to attract impact capital and catalyze stronger public sector economic development systems





State and Local Initiatives To Date

- Knowing Your Zones/Zoning (KC data/maps and Local Govt Commission)
- Telling Your Story (Prospectus tool, Accelerator for America, ATL)
- State and local web pages (CA, NJ, AL, Long Beach, DC, Norfolk etc)
- Tech platforms to connect investors and opportunities (OppSites)
- Reporting and impact frameworks (OZ Framework, NM Quick Start)
- Use cases and financing vignettes (Milken and CDFA)
- Ecosystem building by third-party entities (Utah-Sorenson, Opportunity Alabama)
- State and local wrap around funding and co-investment (MD, AL AIM Act)
- Locally-funded technical assistance to support community efforts (CO)



State and Local Initiatives To Date (continued)

- Community development/co-investment fund (Erie)
- Fund Manager Incubator (Kresge and Calvert Impact Capital)
- OZ one-stop models (Pine Bluff, AR, MD LG task force, Rockefeller, Miami legal services)
- City OZ leads (Baltimore)
- Project finance deal jockeys (Energy Fdn, FUSE Corps, Balle, Connect Capital, Rockefeller)
- State tax credits to incentivize housing/other deals (MS, MO, OH, CA)
- Exemption of income taxes for QOZ businesses (WV)
- Expedited permitting to incentivize OZ projects (CA, AB 25)
- Governor's Executive Orders (MI, MD)



Additional Tools That Could Be Used for OZ Work

Highlighting a few programs designed to create needed capacities and incentives to drive the needed shift from *planning and data to implementation and finance*.

- Local capacity for resilience: Massachusetts MVP program.
- Innovative value capture: Nashville Community Benefits Agreement
- Exit options for investors for community infrastructure: Warehousing Transactions (smaller size deal bundling and refinancing with lower interest rates)
- Certification models (MEDC)



Additional Players: The Federal Partnership

Federal OZ Actions Ongoing:

- White House Council
- White House Implementation Plan, end of year report
- Individual agency innovations and aligned program spending in 130 program areas, more to come from our next speaker. 😊

Future Federal Pathways:

- Concessional financing for business creation (SSBCI 2.0)?
- Certification models (IMCP 2.0)?
- Regional Capacity Grants & Predevelopment Loans?
- Federal Fix bill elements? (Reporting, one year extension, CDFI inclusion, Federal Disaster Areas as automatic OZs)



Additional Players: Philanthropy

Don't expect an OZ strategy to come together on its own in government isolated from other critical community development tools and partners. There are multiple roles for philanthropy, both national foundations and community foundations:

- Convene, eg create an OZ community table (Purpose Built)
- Support government innovation such as training new leaders and skill sets (Rockefeller deal jockeys)
- Derisk/predevelopment support (Announcements expected next month)
- Invest in projects or in policy-aligned fund managers (Kresge)
- Partner with other anchors (Eds and Meds)

Stanford Social Impact Review, 2/7/19

IV. Closing Points



Some Final Questions To Ask:

- Should your city or state create its own OZ or parallel pre-development fund to accelerate implementation?
- Should state and local partners drive “adjacency strategies” to better link long-term community economic demand to start-up service company investments?
- Should your city or state wisely partner with major institutional investors (education, hospitals, military, pension funds)
- Should you act and think regionally based on long-term economic demands and shared best practices?
- Should you weigh in on a federal OZ fix-it-bill? (to include CDFIs, extend deadline, add back reporting, add wrap around support, disaster zones)



Additional Resources from Milken Institute

- Operating Business Vignette 1
- Workforce Housing Vignette 2
- Resilient Infrastructure Brief
- Regional Bootcamps
- Future Vignette Areas

V. Questions?

Dan Carol
Director, Center for Financial Markets
Milken Institute
dcarol@milkeninstitute.org