



HOMES JOBS COMMUNITY

OPPORTUNITY ZONES & COMMUNITIES
Wenatchee, WA | October 24, 2019

 **Department of Commerce**

National Development Council
Partners in Community Development since 1969

NDC focuses on
HOMES, JOBS and COMMUNITY.




\$805M for Affordable Housing	\$754M in New Markets Tax Credit Allocation	\$2.6B in Public-Private Partnership Development	75K+ Practitioners Trained	\$251M in Small Business Loans	100+ TA Client Communities
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OPPORTUNITY ZONES 101



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Opportunity Zones

OVERVIEW

- Federal Tax Cuts and Jobs Act of 2017
- To spur private investment in low income communities
- Tax incentives to invest capital gains into real estate and operating businesses
- Two sets of proposed regulations issued so far – some questions remain
- “Light Touch” regulatory framework



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INCENTIVES

OZ offers three main benefits to investors:


1. Deferral of Capital Gains Taxes

- Until 12/31/2026

2. Reduction of Taxes

- 10% at year 5
- 15% at year 7

3. Exclusion of Future Taxes on OZ investment



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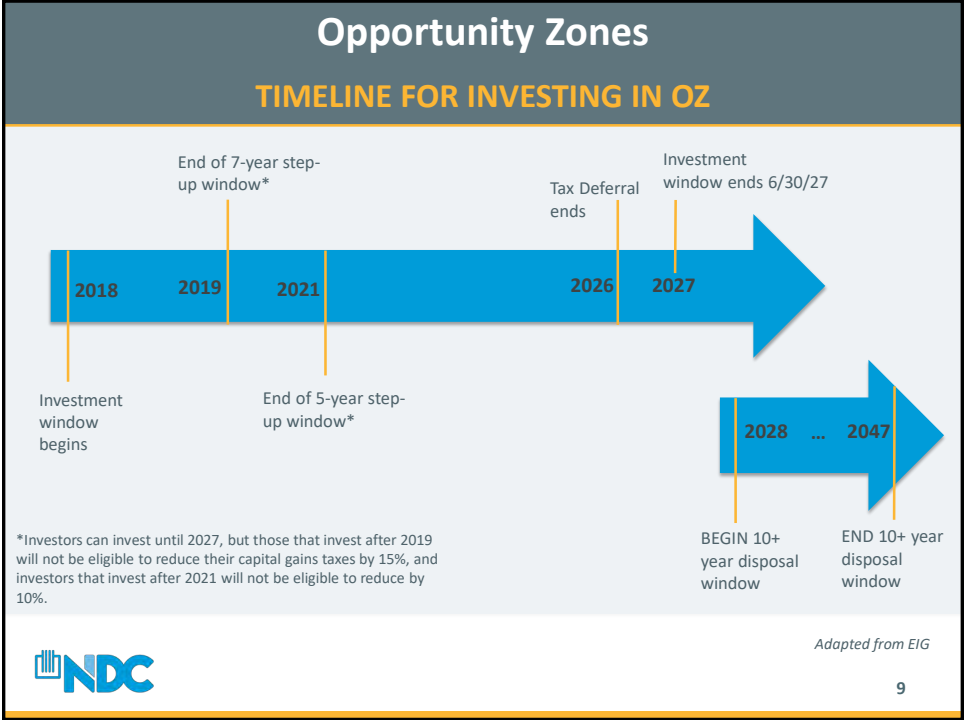
139 in Washington State





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Sound way too complex?

Actually, it can be as simple or complex as you make it...

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THE SIMPLER WAY*

Let's try simple...

- I made \$500,000 in stock market
- If I take it out, I have to pay capital gains tax

....A local restaurant needs capital to expand, -- it's located in an OZ! I know it's a good investment because my CPA has vetted it. Can I get a better deal by using OZs?

*This is just an example & not advice. Consult your CPA & attorney.



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THE SIMPLER WAY*

Biz owner & I agree on terms:

- Partnership? Stock ownership?
- Return on investment?
- Exit?

I form a Opportunity Zone fund:

- Fill out the 2-page IRS form
- Understand the rules & work w/my CPA

After 10 years...

- Any return I make (capital gain) is tax free

*This is just an example & not advice. Consult your CPA & attorney.




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THOSE BIG OZ FUNDS YOU'RE HEARING ABOUT
(OR HOW THIS CAN GET WAY MORE COMPLEX)*

Real estate co. building waterfront condos

- Offering OZ fund for investors
 - This means they must follow lots of federal SEC rules & hire lots of attorneys & CPAs
 - Because fund management will be complex, you need to trust both the condo deal & the fund manager
- You, your CPA & attorney figures it's a good deal:
 - You are ok w/structure, return & exit
 - You don't need to form your own fund because they already have



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BASIC OZ STRUCTURES

Example 1: Single Investor
Investing in Commercial Real Estate

Considerations

- Property must be purchased by unrelated party after 2017 **OR leased**
- If leased, note that:
 - Must be market rate (even if unrelated party)
- Timing of investment and project


Investor

↓ Capital Gains \$

Qualified Opportunity Fund (QOF)

↓ Invests in project partnership
Limited Partner, Other Member

Qualified Opportunity Zone Business Property (QOZB)
– i.e. commercial real estate project



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BASIC OZ STRUCTURES

Example 2:

Investing in OZ Business

Considerations:

- No “sin” business
- 70% assets in OZ
- Gross income tests

Investors

↓
Capital Gains \$

Qualified Opportunity Fund (QOF)


↓

Stock or Partnership Interest

↓

Qualified OZ Business

Business Owner
Still Controls
Business




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KEY POINTS

- Equity (not loans or grants)
- Market-driven
- Best for projects that appreciate over time
- Little reporting
- Property must be purchased after 2017
- Investments must create something new or “substantially improve” existing property



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TIMING CONSIDERATIONS

- 180-day period to invest eligible gain in QOF
- 6-month option to disregard property contributed to QOF
- 31-month working capital safe harbor

Cap. Gain Realized 3/1/19

QOF Investment 9/1/19

180-day period

5-year 10% basis step-up 9/1/24

7-year 5% basis step-up 9/1/26

Deferred Gain Recognized 12/31/26

10-year Potential Sale of QOF Interest 9/1/29

1/19 1/20 1/21 1/22 1/23 1/24 1/25 1/26 1/27 1/28 1/29 1/30

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RESOURCES + SUPPORT

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WE ASKED COMMUNITIES: WHAT DO YOU NEED?

Key partners: Federal Reserve Bank of San Francisco, Commerce, NDC, Philanthropy NW, Mission Investors Exchange, Seattle Foundation, OZ communities & more:

- 17+ workshops, listening sessions
- Statewide convening & Tribal reception



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COMMUNITIES TOLD US

Collaborations to share resources

- “Rising tide lifts all canoes” – Jamestown S’Klallam Tribe

Communities need:

- Technical assistance
- Deal-development capacity
- Organization capacity
- Funding – feasibility studies to design – to get projects investment-ready



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COMMUNITIES TOLD US

- OZ capital won't meet all project needs – still need access to affordable, patient investment capital
- Types of projects include:
 - Tribal resiliency projects
 - Housing of all types
 - Health clinics
 - Industrial symbiosis
 - Community facilities

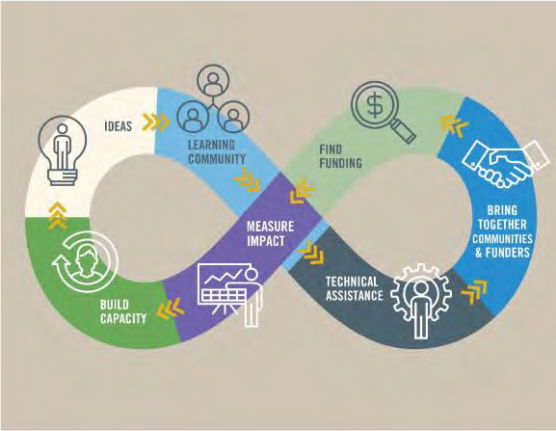



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OUR RESPONSE

Commerce invested \$500K to build a sustainable ecosystem that creates a pipeline of catalytic, community-driven projects. Partnerships are key!





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COMMUNITY STRATEGIES



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COMMUNITY RESPONSES





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COMMUNITY STRATEGIES

- **Identify and educate an ecosystem of players:**
 - Developers, investors, banks, nonprofits, financial advisors, accountants, community foundations, public entities, etc.
- **Develop a local economic development strategy & pipeline of projects**
 - Identify existing assets, opportunities, resources
 - Identify risks (and how to mitigate them), barriers, things to change
- **Cultivate relationships with investors (local, regional, national)**
 - Marketing
- **Coordinate and connect key players to get projects done!**



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CONTACT INFORMATION

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